

Report
of the
Examination of
Alpha Property & Casualty Insurance Company
Dallas, Texas
As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 8, 2015

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

ALPHA PROPERTY & CASUALTY INSURANCE COMPANY
Dallas, Texas

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Alpha Property & Casualty Insurance Company (the company or Alpha) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of the Kemper Group. The Illinois Department of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Illinois Department of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged to review the adequacy of reserves for the Kemper Group companies noted above, in conjunction with the Illinois Department of Insurance's examination of the Kemper Group. The actuary reviewed the adequacy of the

company's loss and loss adjustment expense reserves. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Alpha Property & Casualty Insurance Company was organized in 1979 as a Wisconsin-domiciled insurer licensed under ch. 611, Wis. Stat. The company was initially established as a subsidiary of Family Insurance Corporation (Family), a Wisconsin-domiciled life and health insurer. The principal shareholder of Family was Wisconsin Finance Corporation (WFC), a financial holding company. In 1985, WFC was purchased by United Savings of America (United Savings). United Savings subsequently merged into Heights Finance and changed its name to USA Financial Services. Alpha was paid as a dividend by Family to USA Financial Services in 1991 to facilitate the sale of Family to a third party.

USA Financial Services became financially impaired during the 1990s' savings and loan financial distress and was placed under the supervision of the Resolution Trust Corporation (the Trust), along with its subsidiaries including Alpha

Milwaukee Insurance Group, Inc. (MIG) acquired all of the outstanding shares of Alpha's capital stock from the Trust on December 31, 1992. Milwaukee Insurance Group, Inc., was established in 1985 as a wholly owned subsidiary of Milwaukee Mutual Insurance Company (MMIC) (a Wisconsin-domiciled mutual property and casualty insurer) and served as an intermediate holding company for MMIC's stock insurance company subsidiaries. In November 1986, MIG issued additional shares of its common capital stock and conducted an initial public stock offering. Upon completion of the offering, approximately 65% of the common stock of MIG remained under the ownership of MMIC, and the remaining 35% was owned by public shareholders. MIG conducted a second public offering of 1,000,000 newly issued shares of MIG common stock in 1993, resulting in the reduction of MMIC's ownership interest of MIG to approximately 49%.

Trinity Universal Insurance Company (Trinity Universal) acquired all of the capital stock of MIG effective October 2, 1995. Trinity Universal is a Texas-domiciled property and casualty insurer wholly owned by Unitrin, Inc. (now known as Kemper Corporation). Upon the change of control of MIG to Trinity Universal, the ultimate ownership and control of Alpha transferred to Kemper Corporation. MIG was dissolved in 2001 and its assets and liabilities were

merged into Trinity Universal. Upon the dissolution of MIG, Alpha became a directly held, wholly owned subsidiary of Trinity Universal.

Alpha operates as part of the Kemper Personal and Commercial Lines business unit, in the Unitrin Specialty segment of Kemper Corporation. Alpha writes mainly nonstandard personal auto (liability and physical damage) and commercial auto liability business.

Alpha does not have any employees, and all operating functions of the company are performed by affiliates within the Kemper Group pursuant to numerous intercompany agreements. Trinity Universal and affiliates conduct all of Alpha's business operations, including insurance underwriting, marketing and policy issuance, claims administration and adjudication, investment management, and accounting and financial reporting. Further discussion of the Kemper Group, description of the significant insurance affiliates of Alpha, and the company's affiliated agreements are included in the section of this report captioned "Affiliated Companies."

In 2013, the company wrote direct premium in the following states:

Colorado	\$18,519,164	21.0%
Oregon	15,478,461	17.6
Florida	13,086,623	14.8
Utah	9,702,451	11.0
All others	<u>31,392,763</u>	<u>35.6</u>
Total	<u>\$88,179,462</u>	<u>100.0%</u>

The company is licensed in 28 states, including the states of Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Minnesota, Missouri, Montana, Nebraska, Nevada, New Jersey, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Utah, Virginia, Washington, and Wisconsin. The major products are marketed through independent agents. The company cedes 100% of its net insurance risks to Trinity Universal and does not retain any policy-related risks for its own account.

The following table is a summary of the net insurance premiums written by the company in 2013. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Homeowner’s multiple peril	\$ 63,522	\$ 0	\$ 63,522	\$0
Private passenger auto liability	64,296,589	0	64,296,589	0
Commercial auto liability	5,844,982	4,127	5,849,109	0
Auto physical damage	<u>17,974,369</u>	<u>0</u>	<u>17,974,369</u>	<u>0</u>
Total All Lines	<u>\$88,179,462</u>	<u>\$4,127</u>	<u>\$88,183,589</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The Alpha board of directors consists of five members. Each director is elected annually by the company's sole shareholder to serve a one-year term. Each director of Alpha is a senior executive officer of Kemper Corporation. As executive employees of the holding company system, the directors receive no compensation specific to their service on the Alpha board.

Kemper Corporation is a SOX-Compliant Entity, as defined in s. Ins 50.01 (7t), Wis. Adm. Code.

Alpha has elected to allow Kemper Corporation's audit committee to perform the duties of Alpha's audit committee.

As of December 31, 2013, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Denise Lynch St. Augustine, FL	Chairman of the Board, Kemper Independence Insurance Company	2014
Maxwell Mindak Elmhurst, IL	Assistant Treasurer, Kemper Independence Insurance Company	2014
Richard Roeske Naperville, IL	Vice President and Chief Accounting Officer, Kemper Corporation	2014
John Boschelli Geneva, IL	Vice President and Chief Investment Officer, Kemper Corporation	2014
Timothy Bruns* Chattanooga, TN	President, Kemper Specialty	2014

*Brian Delfino replaced Timothy Bruns as a director in 2014.

Officers of the Company

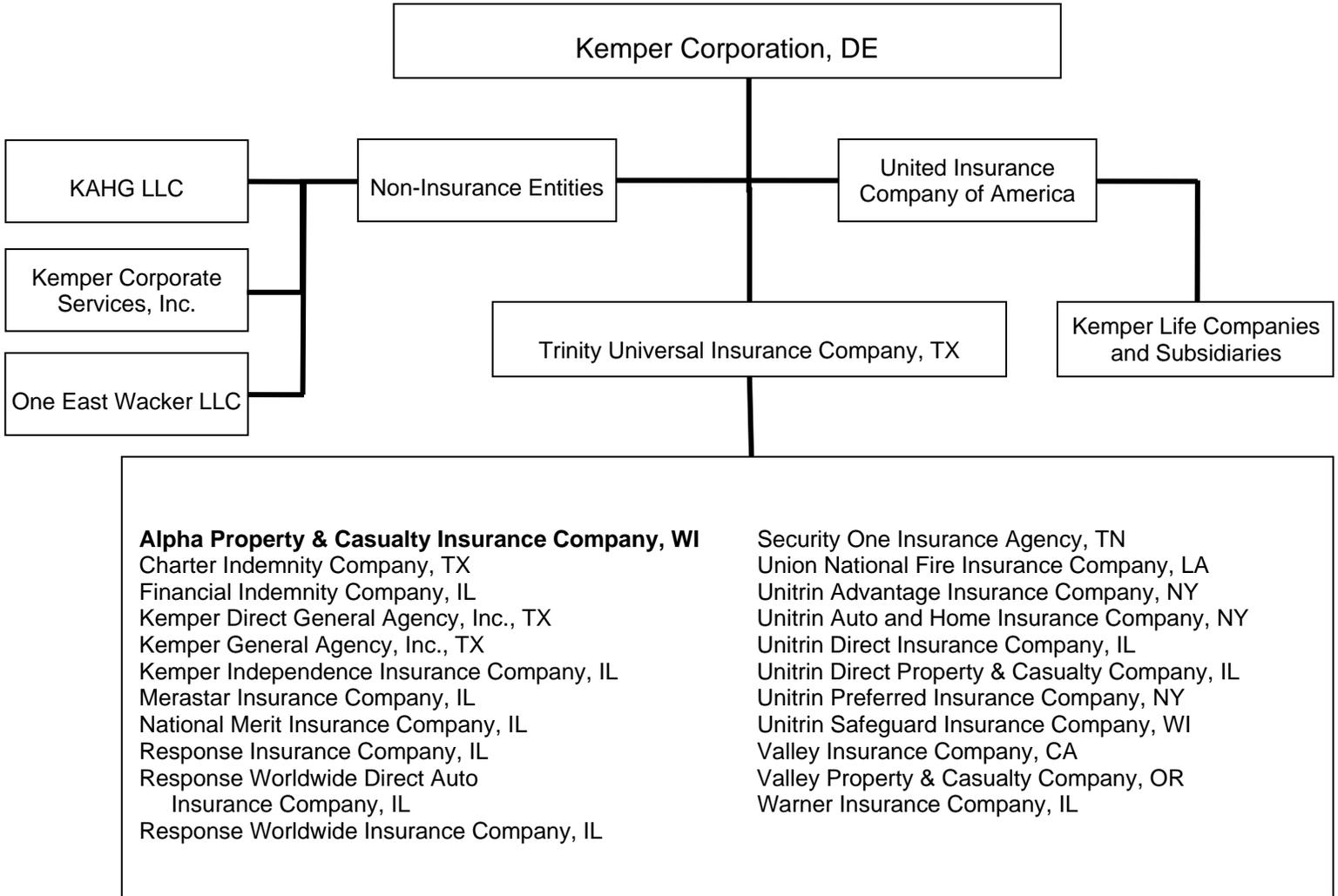
The executive officers of the company are elected by the Alpha board of directors at the board's annual meeting and serve a one-year term of office. Each senior officer of the company also serves as a senior officer of other companies within the holding company organization. The officers serving at the time of this examination are as follows:

Name	Office	2013 Compensation
Timothy Bruns	President	\$ 597,266
Ronald Ballard	VP and Treasurer	234,364
David Piper	Senior VP and Secretary	255,431
Denise Lynch	Chairman of the Board	1,594,796

IV. AFFILIATED COMPANIES

Alpha is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant to the examination follows the organizational chart.

**Organizational Chart
As of December 31, 2013**



Kemper Corporation

Kemper Corporation, formerly Unitrin, Inc., is a publicly traded holding company incorporated in the state of Delaware in February 1990. Unitrin, Inc., was established to hold all of the insurance and finance business subsidiaries of Teledyne, Inc., which spun off all of its remaining insurance and finance subsidiaries on April 20, 1990. The name was changed to Kemper Corporation in August 2011. Through its operating subsidiaries, Kemper Corporation offers property and casualty insurance, life and health insurance, and other insurance products to individuals and businesses.

Kemper Corporation's Property & Casualty Insurance segment mostly distributes its products through independent agents and brokers who are paid commissions for their services. The Property & Casualty Insurance segment's products are also distributed through employer-sponsored voluntary benefit programs and other affinity relationships. The Property & Casualty Insurance segment provides automobile, homeowner's, renters, fire, umbrella and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses.

As of December 31, 2013, Kemper Corporation's GAAP basis audited financial statements reported total assets of \$7,656,400,000, total liabilities of \$5,604,900,000, and total shareholders' equity of \$2,051,500,000.

Kemper Corporate Services, Inc.

Kemper Corporate Services, Inc., provides various general services to all of the operating companies within the Kemper Group. Services provided include executive management, investment management, analysis and accounting, financial accounting and reporting, tax accounting and tax return preparation, internal audit, financial planning, capital project evaluation, real estate management, and computer equipment and processing services. The costs of the executive services rendered by Kemper Corporate Services, Inc., are allocated to the respective affiliates in accordance with general services agreements established between Kemper Corporate Services, Inc., and its affiliates.

Trinity Universal Insurance Company

Trinity Universal is a multi-line insurance company, organized under the laws of Texas in 1932 from the merger of Trinity Fire Insurance Company and Universal Automobile Insurance Company. Trinity Universal is Kemper Corporation's largest property and casualty insurance subsidiary and is the holding company's leading insurer in the multi-line insurance business segment. Trinity Universal and its subsidiary insurers operate in 47 states and offer preferred risk and standard risk automobile, commercial automobile, homeowner's, fire, and related insurance products. Trinity Universal is the immediate parent of two Wisconsin-domiciled insurers, Unitrin Safeguard Insurance Company and Alpha Property & Casualty Insurance Company.

As of December 31, 2013, Trinity Universal's statutory basis audited financial statements reported total admitted assets of \$2,380,943,416, total liabilities of \$1,396,863,781, and surplus as regards policyholders of \$984,079,635.

Unitrin Direct Insurance Company

Unitrin Direct Insurance Company (Unitrin Direct) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. Alpha is party to multiple general services agreements with Unitrin Direct whereby Unitrin Direct provides information technology services to the Kemper Group property and casualty insurers.

As of December 31, 2013, Unitrin Direct's statutory basis audited financial statements reported total admitted assets of \$14,812,641, total liabilities of \$6,561,500, and surplus as regards policyholders of \$8,251,141.

Merastar Insurance Company

Merastar Insurance Company (Merastar) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. Merastar provides mainly auto and homeowner's insurance coverages through employer-sponsored voluntary benefit accounts. Merastar primarily utilizes its own sales and service staff.

On January 1, 2009, Alpha entered into a general services agreement with Merastar, whereby Merastar provides marketing, underwriting, claim adjusting and reinsurance reporting,

facilities, supplies and staffing, and accounting services. Alpha is also party to an assignment and consent, whereby Merastar agrees to perform all administrative services on business reinsured under the company's 100% Quota Share Reinsurance Agreement with Trinity Universal.

As of December 31, 2013, Merastar's statutory basis audited financial statements reported total admitted assets of \$32,605,685, total liabilities of \$23,315,823, and surplus as regards policyholders of \$9,289,861.

Unitrin Direct Property & Casualty Insurance Company

Unitrin Direct Property & Casualty Insurance Company (UDPC) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. UDPC provides multi-line property and casualty individual insurance coverages.

Effective January 1, 2009, Alpha entered into an Information Technology Services Agreement with UDPC whereby UDPC provides information technology services to the Kemper Group property and casualty insurers.

As of December 31, 2013, UDPC's statutory basis audited financial statements reported total admitted assets of \$18,512,598, total liabilities of \$9,566,019, and surplus as regards policyholders of \$8,946,579.

Agreements with Affiliates

1. Federal Income Tax Allocation Agreement—In 1995 a federal income tax allocation agreement was established between Unitrin, Inc. (now the Kemper Corporation) and various affiliates, including Alpha. The agreement provides the basis for the method of settlement of federal income tax payments and refunds within the group. The Kemper Corporation files a consolidated federal income tax return for the Kemper Group. The respective affiliates pay the Kemper Corporation the tax that the affiliates would have paid on a separate company basis. Each affiliate's federal income tax liability or refund is limited to the separate company basis amount, and final settlements of federal income tax amounts due between the Kemper Corporation and the affiliates are required to be made within 30 days of the filing of the

consolidated tax return or within 30 days of receipt of a tax refund. The tax allocation agreement was effective for tax years ending on or after December 31, 1995.

2. General Services Agreement with Unitrin Direct Insurance Company—Effective April 1, 2001, a General Services Agreement was established between Alpha and Unitrin Direct. The agreement provides that Unitrin Direct will administer all aspects of the directly marketed private passenger automobile business of Alpha written in the state of Florida. Unitrin Direct exercises comprehensive authority to administer all aspects of the subject business including policy underwriting; marketing operations; policy administration; premium billing and collection; loss reserve estimation; claim adjudication, settlement and payment; and maintenance of books, accounts, and records. The agreement is continuous for a three-year period following the effective date unless terminated by either party upon not less than 60 days' advance written notice.
3. General Services Agreement with Merastar Insurance Company—Effective January 1, 2009, Alpha entered into a General Services Agreement with Merastar, whereby Merastar provides Alpha with marketing, underwriting, claim adjusting and reinsurance reporting, facilities, supplies and staffing, and accounting services.
4. Information Technology Services Agreement with Unitrin Direct Property & Casualty Insurance Company—Effective January 1, 2009, Alpha entered into an Information Technology Services Agreement with UDPC, whereby UDPC provides information technology services, such as IT applications and consulting services with respect to technology shared among the Kemper property and casualty affiliates. The agreement is in effect continuously unless terminated by 90 days' notice by either party.
5. Assignment and Consent with Merastar Insurance Company—Pursuant to an Assignment and Consent effective January 1, 2009, Alpha and Trinity Universal assigned the administration of the business reinsured under its 100% Quota Share Reinsurance Agreement to Merastar. Under the Consent, Trinity Universal pays Merastar for performing these services.

6. Service Agreement with Kemper Corporate Services, Inc.—Effective December 21, 2012, Alpha entered a Service Agreement with Kemper Corporate Services, Inc. (KCS) where KCS agrees to provide a variety of general services to Alpha as well as computer and information technology services. As consideration, Alpha agrees to pay KCS for its share of all fair and reasonable corporate expenses incurred by KCS.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The contract contained proper insolvency provisions.

Affiliated Ceded Reinsurance

Effective January 1, 2009, Trinity Universal and Alpha entered into a 100% Quota Share Reinsurance Agreement. This agreement replaced a 100% Quota Share Reinsurance Agreement that was entered into January 1, 1997. Pursuant to this new agreement, Alpha cedes and Trinity Universal assumes a 100% quota share participation in the ultimate net loss of Alpha with respect to its existing and new business. In return, Trinity Universal is entitled to the full net premiums on the reinsured policies written on and after January 1, 2009, and payment equal to the gross reserves assumed by Trinity Universal on the existing business written before January 1, 2009. The agreement also provides for administration of the business by Trinity Universal, unless Trinity Universal assigns all or part of its administrative responsibilities to one or more of its affiliates.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2013, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Alpha Property & Casualty Insurance Company
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$12,119,985	\$	\$12,119,985
Cash, cash equivalents, and short-term investments	3,803,195		3,803,195
Investment income due and accrued	230,431		230,431
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	17,913,959		17,913,959
Reinsurance:			
Amounts recoverable from reinsurers	5,109		5,109
Net deferred tax asset	54,663		54,663
Write-ins for other than invested assets	<u>379,382</u>	<u>113,891</u>	<u>265,490</u>
Total Assets	<u>\$34,506,724</u>	<u>\$113,891</u>	<u>\$34,392,833</u>

Alpha Property & Casualty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Commissions payable, contingent commissions, and other similar charges		\$ 820,254
Other expenses (excluding taxes, licenses, and fees)		173,767
Taxes, licenses, and fees (excluding federal and foreign income taxes)		291,831
Current federal and foreign income taxes		100,849
Advance premium		171,118
Ceded reinsurance premiums payable (net of ceding commissions)		17,913,959
Amounts withheld or retained by company for account of others		187,670
Payable to parent, subsidiaries, and affiliates		713,407
Write-ins for liabilities		<u>2,760</u>
Total liabilities		20,375,615
Common capital stock	\$4,200,000	
Gross paid in and contributed surplus	7,300,000	
Unassigned funds (surplus)	<u>2,517,218</u>	
Surplus as regards policyholders		<u>14,017,218</u>
Total Liabilities and Surplus		<u>\$34,392,833</u>

Alpha Property & Casualty Insurance Company
Summary of Operations
For the Year 2013

Underwriting Income		
Premiums earned		\$
Underwriting Deductions:		
Other underwriting expenses incurred	<u>\$ (5,980)</u>	
Total underwriting deductions	(5,980)	
Net underwriting gain (loss)		5,980
Investment Income		
Net investment income earned	565,524	
Net realized capital gains (losses)	<u>2,430</u>	
Net investment gain (loss)		<u>567,954</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		573,934
Dividends to policyholders		<u> </u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		573,934
Federal and foreign income taxes incurred		<u>113,473</u>
Net Income		<u>\$460,461</u>

Alpha Property & Casualty Insurance Company
Cash Flow
For the Year 2013

Premiums collected net of reinsurance		\$ (17,524)
Net investment income		<u>657,515</u>
Total		639,991
Benefit- and loss-related payments	\$ 4,510	
Commissions, expenses paid, and aggregate write-ins for deductions	295,419	
Federal and foreign income taxes paid (recovered)	<u>164,380</u>	
Total deductions		<u>464,310</u>
Net cash from operations		175,681
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>\$2,400,000</u>	
Total investment proceeds		2,400,000
Cost of investments acquired (long-term only):		
Bonds	<u>748,974</u>	
Total investments acquired		<u>748,974</u>
Net cash from investments		1,651,026
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>30,842</u>	
Net cash from financing and miscellaneous sources		<u>30,842</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		1,857,549
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,945,646</u>
End of Year		<u>\$3,803,195</u>

**Alpha Property & Casualty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2013**

Assets	\$34,392,833
Less liabilities	<u>20,375,615</u>
Adjusted surplus	14,017,218
Compulsory surplus (subject to a minimum of \$2 million)	<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)	<u>\$12,017,218</u>
Adjusted surplus (from above)	\$14,017,218
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)	<u>2,800,000</u>
Security Surplus Excess (or Deficit)	<u>\$11,217,218</u>

**Alpha Property & Casualty Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2013**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2013	2012	2011	2010	2009
Surplus, beginning of year	\$13,638,882	\$13,103,190	\$12,614,216	\$13,586,730	\$13,624,577
Net income	460,461	470,092	521,151	549,229	562,871
Change in net deferred income tax	15,427	31,884	(16,467)	12,591	(720)
Change in non-admitted assets	(97,552)	33,716	(15,720)	(34,335)	0
Dividends to stockholders	_____	_____	_____	(1,500,000)	(600,000)
Surplus, End of Year	<u>\$14,017,218</u>	<u>\$13,638,882</u>	<u>\$13,103,190</u>	<u>\$12,614,216</u>	<u>\$13,586,730</u>

**Alpha Property & Casualty Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2013**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

Ratio	2013	2012	2011	2010	2009
#1 Gross Premium to Surplus	629%	701%	749%	724%	665%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	3.6	4.2	4.4	4.4	4.3
#7 Gross Change in Surplus	3	4	4	(7)	0
#8 Change in Adjusted Surplus	3	4	4	(7)	0
#9 Liabilities to Liquid Assets	123*	145*	151*	153*	137*
#10 Agents' Balances to Surplus	128*	151*	157*	160*	142*
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Exceptional values in Ratios #9 and #10 relate to Alpha's "Ceded Reinsurance Premium Payable." This balance was \$17,913,959 at year-end 2013. The large reinsurance premium payables are due to Alpha ceding all of its premium.

Growth of Alpha Property & Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	\$34,392,833	\$20,375,615	\$14,017,218	\$460,461
2012	36,857,180	23,218,298	13,638,882	470,092
2011	35,748,765	22,645,575	13,103,190	521,161
2010	35,012,375	22,398,159	12,614,216	549,229
2009	35,402,230	21,815,500	13,586,730	562,871

Surplus has increased 3.2% over the five-year examination period. In addition, there have been only minor changes to Alpha's assets and liabilities over that time. Net income has decreased every year, but it remains positive. The company cedes 100% of its net insurance risks to Trinity Universal and does not retain any policy-related risks for its own account. Therefore, the company has no significant underwriting results and its income is derived from investment income. Alpha paid \$2.1 million in dividends during the period since the last examination. The last dividend was paid in 2010.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no comments or recommendations in the prior examination report.

Summary of Current Examination Results

Annual Statement Reporting

A review of the company's transactions with affiliates was performed by the lead state and reviewed by this examination team. It was noted that balances for the quota share agreement with Trinity Universal were included in the related party receivable or payable annual statement balances. It is the company's policy to settle reinsurance transactions with affiliates through inter-company accounts. However, the NAIC Annual Statement Instructions – Property/Casualty requires segregation of reinsurance-related receivable and payable balances for reporting on the annual statement. It is recommended that the company report the reinsurance balances of the intercompany quota share arrangement in the appropriate lines of the annual statement in accordance with SSAP No. 62R and the NAIC Annual Statement Instructions – Property/Casualty.

VIII. CONCLUSION

Alpha Property & Casualty Insurance Company is a Wisconsin-domiciled stock property and casualty insurance company. The company was originally organized in 1979 and was purchased December 31, 1992, by Milwaukee Insurance Group, Inc., then a holding company subsidiary of Milwaukee Mutual Insurance Company. Effective October 2, 1995, Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. (now known as Kemper Corporation), purchased all of the capital stock of Milwaukee Insurance Group, Inc., and thereby acquired ownership and control of Alpha. In 2001, the Milwaukee Insurance Group, Inc., was dissolved and Alpha became a directly held, wholly owned subsidiary of Trinity Universal.

Alpha operates as part of the Unitrin Specialty segment of Kemper Corporation, offering mainly nonstandard personal auto and commercial auto business. Alpha does not have any employees, and all operations of the company are performed by other affiliates within the Kemper Group holding company system pursuant to intercompany services and reinsurance agreements. The company cedes 100% of its net insurance risks to Trinity Universal and does not retain any policy-related risks for its own account.

The current examination resulted in one recommendation regarding the reporting of related party receivable and payable balances. No reclassifications of account balances or adjustments to surplus were made by the examination to the year-end 2013 statutory financial statements. The examination noted that as of December 31, 2013, the company had admitted assets of \$34,392,833, liabilities of \$20,375,615, and policyholders' surplus of \$14,017,218.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Annual Statement Reporting—It is recommended that the company report the reinsurance balances of the intercompany quota share arrangement in the appropriate lines of the annual statement in accordance with SSAP No. 62R and the NAIC Annual Statement Instructions – Property/Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
John Ebsen	Insurance Financial Examiner
David Jensen	IT Specialist

Respectfully submitted,

Mike Miller
Examiner-in-Charge