

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

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

# 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 Specialty 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 SPECIALTY 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 Alliance Insurance Corporation	Virginia
Alfa Vision 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 Company.

### HISTORY

The Corporation is a stock property and casualty insurer. The Corporation was incorporated August 11, 1999, as a wholly-owned subsidiary of Alfa Mutual Insurance Company (AMI). The initial marketing plan for the Corporation was the writing of non-standard automobile insurance in Alabama, Georgia and Mississippi.

The Corporation's Articles of Incorporation (Articles) authorized 10,000,000 shares of common stock at a par value of \$.05 per share and 1,000,000 shares of preferred stock at a par value of \$.10 per share. No preferred stock had been issued as of the date of this examination. The Corporation's initial capitalization derived from 10,000,000 shares of common stock being issued to AMI for a price of \$15,000,000, \$500,000 of paid up capital and \$14,500,000 of paid in surplus. On July 21, 2001, the Corporation's Articles were amended to change the par value of its common stock from \$.05 to \$.10 per share, resulting in \$500,000 being transferred from paid in surplus to capital.

Additional paid in surplus of \$10,000,000 was contributed to the Corporation in 2005 and the par value of the common stock was changed from \$.10 to \$.20 per share in 2008. In October 2010, the Corporation redomesticated from Alabama to Virginia. In connection with the redomestication, the par value of the Corporation's shares of common stock was increased from \$.20 to \$.30 per share to comply with the minimum capital requirements of Virginia. The increase was effective October 1, 2010.

On July 31, 2014, AMI made a cash contribution of \$7,500,000 to the Corporation. On September 30, 2016, AMI made a cash contribution of \$2,100,000 to the Corporation. Both of these transactions were approved by the Virginia Bureau of Insurance. The Corporation paid no dividends for the period under examination.

### **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.

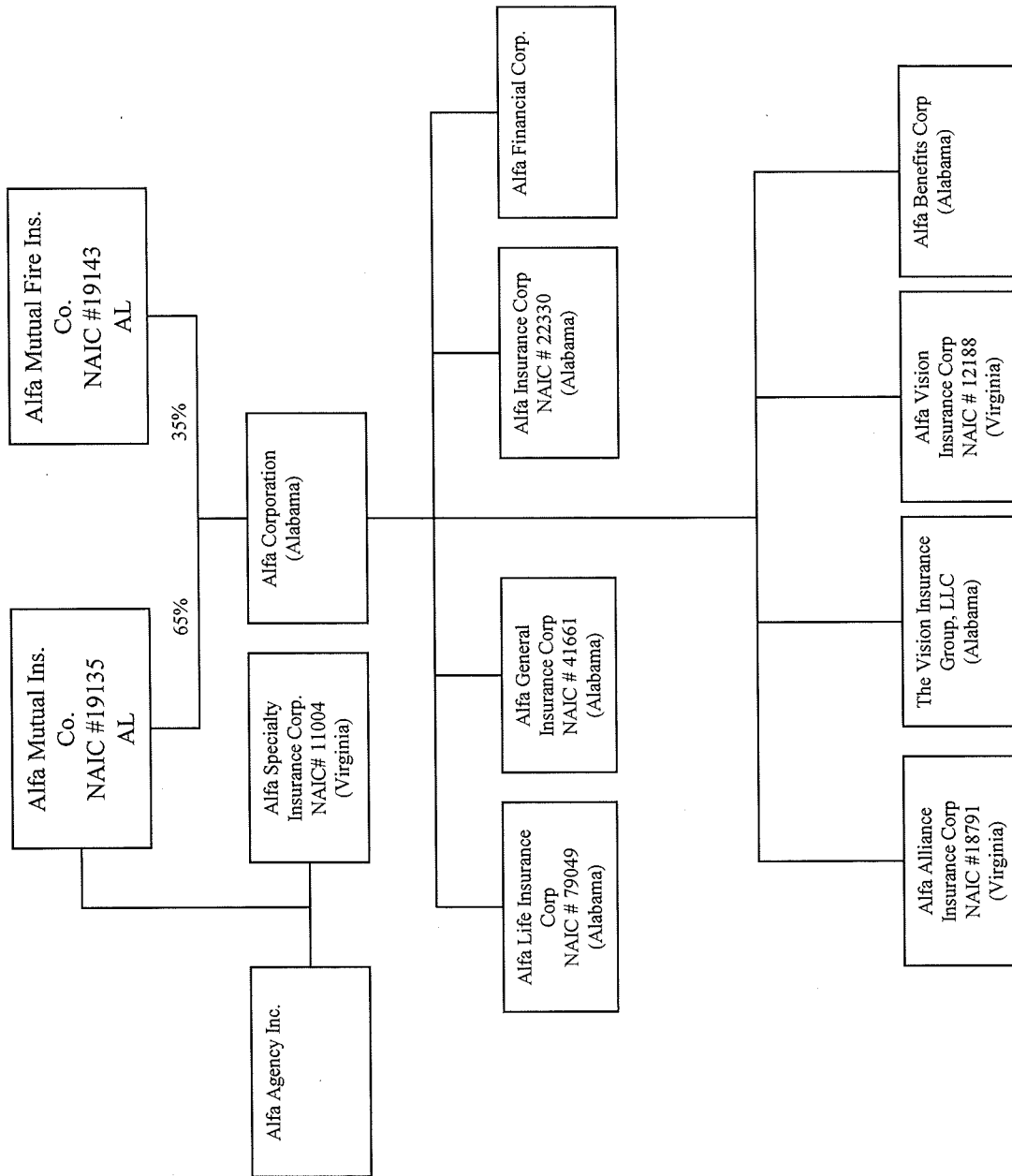
The bylaws provide that the board shall elect a president, an executive vice president, a secretary, a treasurer and a general manager. In addition, the board may appoint such other officers as may be deemed necessary. The president has general charge and supervision of the business and affairs of the Corporation. At December 31, 2016, the directors and select officers of the Corporation were as follows:

<b><u>Directors</u></b>	<b><u>Principal Business Affiliation</u></b>
James L. Parnell	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****Title**

James L. Parnell	Chairman of the Board and Chief Executive Officer
John C. Pace	President
Stephen G. Rutledge	Executive Vice President, Operations and Treasurer
Angela L. Bradwell	Executive Vice President, General Counsel, and Secretary
William S. Forrest	Executive Vice President, Administration
John D. Hemmings, Jr.	Senior Vice President, Investments
Russell J. Sinco	Senior Vice President and Chief Financial Officer
Donald E. Manis	Vice President, P&C Actuary
Joel F. Witt	Vice President, Actuarial

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, the Corporation, Alfa Mutual Fire Insurance Company, Alfa Mutual General Insurance Company, and Alfa Corporation and their subsidiaries, 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 Alabama, Arkansas, Georgia, Indiana, Kentucky, Mississippi, Missouri, Ohio, Tennessee, Texas and Virginia, but currently writes most of its business in Virginia (33%), Georgia (23%) and Alabama (10%).

In Virginia, the Corporation was authorized to write Auto Liability, Auto Physical Damage, and Commercial Multi-Peril as of December 31, 2016. Business is produced by independent agents in all states except Alabama, Georgia and Mississippi. Business is produced by employee agents in Alabama, independent exclusives in Mississippi and a mixture of independent exclusives and independent agents in Georgia. Control over underwriting and settlement of claims is maintained at the Corporation's home office for the core states of Alabama and Mississippi. Claims for Georgia are maintained at the Franklin, Tennessee office. In other states, control over underwriting and settlement of claims is handled out of Alfa's Brentwood, 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 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	\$28,905,804	\$9,669,019	\$1,000,000	\$24,000,000	(\$5,763,215)
2008	33,777,293	15,532,889	2,000,000	23,000,000	(6,755,596)
2009	36,839,113	19,521,622	2,000,000	23,000,000	(7,682,509)
2010	38,741,544	20,749,224	3,000,000	22,000,000	(7,007,680)
2011	37,487,005	21,702,814	3,000,000	22,000,000	(9,215,809)
2012	39,986,518	22,771,345	3,000,000	22,000,000	(7,784,827)
2013	43,444,206	24,873,052	3,000,000	22,000,000	(6,428,846)
2014	52,775,157	25,979,726	3,000,000	29,500,000	(5,704,569)
2015	50,822,935	24,660,275	3,000,000	29,500,000	(6,337,340)
2016	53,812,047	25,887,474	3,000,000	31,600,000	(6,675,427)

<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	\$9,660,651	\$5,878,330	\$2,668,588	\$1,113,733
2008	18,296,113	13,641,060	5,933,957	(1,278,904)
2009	19,556,079	16,061,549	5,854,959	(2,360,429)
2010	20,701,515	15,679,024	6,223,397	(1,200,906)
2011	20,674,954	18,864,085	6,138,089	(4,327,220)
2012	20,894,868	14,433,845	6,426,182	34,841
2013	21,446,227	14,760,148	6,891,096	(205,017)
2014	22,223,598	15,633,703	7,290,480	(700,585)
2015	22,604,200	15,984,982	7,255,202	(635,984)
2016	24,000,311	17,315,064	7,578,638	(893,391)

## REINSURANCE

### **Intercompany Pooling Agreement**

The Company is affiliated with seven other property and casualty insurers in a reinsurance pooling agreement. The terms of the agreement provide that all direct business of the affiliates will be ceded to AMI. The pooled business would then be retroceded according to percentages provided in the pooling agreement. The Corporation became a participant in the reinsurance pooling agreement effective on January 1, 2001. 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 of the current year, all Participating Companies ceded 100% of its 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, 2016:

	Pool 4	Pool 5	Pool 6	Pool 7
Name of Insurer	Loss Dates 1/1/01 - 2/13/04	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%

The Participating Companies agree that net premiums, losses and expenses on insurance written by AMI and assumed under this agreement would be prorated to the Participating Companies based on the participant's proportionate share specified in the agreement. Each Participating Company retains and is liable for outstanding net losses (including IBNR), outstanding net expenses, and salvage and subrogation related to losses incurred. The agreement is continuous and can only be terminated in writing by mutual agreement of all parties.

**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	\$16,216,513		\$16,216,513
Preferred stocks	706,346		706,346
Common stocks	6,807,660		6,807,660
Cash and short-term investments	17,295,970		17,295,970
Other invested assets	603,750		603,750
Investment income due and accrued	92,046		92,046
Uncollected premiums and agents' balances in the course of collection	1,853,094	19,567	1,833,527
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,042,301	222	4,042,079
Amounts recoverable from reinsurers	5,630,093		5,630,093
Current federal income tax recoverable	93,263		93,263
Net deferred tax asset	485,182		485,182
Electronic data processing equipment	2,122,339	2,122,339	
Receivables from parent, subsidiaries, and affiliates	5,818	200	5,618
Other amounts receivable	689	689	
Aggregate write-ins for other than invested assets	45,084	45,084	
Totals	<u>\$56,000,148</u>	<u>\$2,188,101</u>	<u>\$53,812,047</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$7,346,117
Reinsurance payable on paid losses and loss adjustment expenses		1,733,657
Loss adjustment expenses		1,469,532
Commissions payable, contingent commissions and other similar charges		3,404,056
Other expenses		138,144
Taxes, licenses and fees		664,079
Unearned premiums		8,857,687
Advance premium		453,945
Ceded reinsurance premiums payable		(1,519,295)
Amounts withheld or retained by company for account of others		186,294
Remittances and items not allocated		72,233
Drafts outstanding		559,416
Payable to parent, subsidiaries, and affiliates		2,519,170
Aggregate write-ins for liabilities		<u>2,439</u>
Total liabilities		\$25,887,474
Common capital stock	\$3,000,000	
Gross paid in and contributed surplus	31,600,000	
Unassigned funds (surplus)	<u>(6,675,427)</u>	
Surplus as regards policyholders		<u>27,924,573</u>
Totals		<u><u>\$53,812,047</u></u>

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

UNDERWRITING INCOME

Premiums earned	<u>\$24,000,311</u>
Deductions:	
Losses incurred	\$15,860,219
Loss adjustment expenses incurred	1,454,845
Other underwriting expenses incurred	7,579,889
Aggregate write-ins for underwriting deductions	<u>(1,251)</u>
Total underwriting deductions	<u>\$24,893,702</u>
Net underwriting loss	<u>(\$893,391)</u>

INVESTMENT INCOME

Net investment income earned	\$592,213
Net realized capital gains	<u>354,253</u>
Net investment gain	<u>\$946,466</u>

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$145,098)
Finance and service charges not included in premiums	629,729
Aggregate write-ins for miscellaneous income	<u>5,922</u>
Total other income	<u>\$490,553</u>
Net income before federal income taxes	\$543,628
Federal income taxes incurred	<u>(242,352)</u>
Net income	<u><u>\$785,980</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	<u>\$15,784,191</u>	<u>\$17,215,173</u>	<u>\$18,571,154</u>	<u>\$26,795,431</u>	<u>\$26,162,660</u>
Net income	\$1,284,227	\$1,764,536	\$583,741	\$958,886	\$785,980
Change in net unrealized capital gains or (losses)	292,280	223,342	171,463	(417,996)	28,691
Change in net deferred income tax	(429,777)	(596,352)	(27,951)	34,043	(261,268)
Change in nonadmitted assets	284,252	(35,545)	(2,976)	(1,207,704)	(891,490)
Paid in surplus			<u>7,500,000</u>		<u>2,100,000</u>
Change in surplus as regards policyholders for the year	<u>\$1,430,982</u>	<u>\$1,355,981</u>	<u>\$8,224,277</u>	<u>(\$632,771)</u>	<u>\$1,761,913</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$17,215,173</u></u>	<u><u>\$18,571,154</u></u>	<u><u>\$26,795,431</u></u>	<u><u>\$26,162,660</u></u>	<u><u>\$27,924,573</u></u>

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

Premiums collected net of reinsurance	\$23,512,764
Net investment income	664,013
Miscellaneous income	634,385
Total	<u>\$24,811,162</u>
Benefits and loss related payments	\$14,872,536
Commissions, expenses paid and aggregate write-ins	7,927,317
Federal income taxes paid	(98,000)
Total	<u>\$22,701,853</u>
Net cash from operations	<u>\$2,109,309</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$8,497,308
Stocks	5,807,744
Net gains on cash and short-term investments	15,176
Total investment proceeds	<u>\$14,320,228</u>
Cost of investments acquired (long-term only):	
Bonds	\$8,034,777
Stocks	2,461,613
Other invested assets	603,751
Total investments acquired	<u>\$11,100,141</u>
Net cash from investments	<u>\$3,220,087</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Capital and paid in surplus	\$2,100,000
Other cash applied	(2,327,476)
Net change from financing and miscellaneous sources	<u>(\$227,476)</u>
Net change in cash and short-term investments	<u>\$5,101,920</u>

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

Cash and short-term investments:	
Beginning of year	\$12,194,050
End of year	17,295,970
Net change in cash and short-term investments	<u>\$5,101,920</u>

**SUBSEQUENT EVENTS**

1. Effective August 23, 2017, the name of the Corporation was changed to Trexis One Insurance Corporation.

**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, 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 Specialty 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,**

A handwritten signature in black ink, appearing to read "John C. Pace", written in a cursive style.

**John C. Pace  
President  
Trexis One Insurance Corporation (previously Alfa Specialty Insurance Corporation)**