

EXAMINATION REPORT
on
FBALLIANCE INSURANCE, INC.
Richmond, Virginia
as of
December 31, 2018

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 FBAlliance Insurance, Inc., as of December 31, 2018, 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 18th day of June 2020

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

Scott A. White
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

Scope of the Examination..... 1

History 2

Management and Control 2

Related Party Transactions 5

Territory and Plan of Operation 6

Growth of the Company 7

Reinsurance 8

Financial Statements..... 9

Subsequent Event 15

Acknowledgment..... 16

April 27, 2020
Richmond, Virginia

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

Dear Sir:

Pursuant to your instructions and in accordance with the requirements of § 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of the

FBALLIANCE INSURANCE, INC

Schaumburg, Illinois

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

SCOPE OF THE EXAMINATION

This is the first examination of the Company by the State Corporation Commission's Bureau of Insurance (Bureau). This examination covers the period from April 25, 2016 through December 31, 2018.

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 Company's financial condition, assess corporate governance, identify current and prospective risks of the Company, 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 Company 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 by the Bureau on a coordinated basis, with the State of Illinois as the NAIC lead state. The examination of the Corporation was conducted concurrently with the examination of FBAI Alliance Insurance Company (FBAIC), an Illinois domestic.

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 Company is a property and casualty insurer. The Company was granted a charter by the Virginia State Corporation Commission (Commission) on October 30, 2015, and commenced business on April 25, 2016. According to the charter, the purpose for which the Company was formed, in part, is as follows:

To insure or reinsure, persons or their property against any and all risks, hazards and kinds of insurance as authorized and permitted in Sections 38.2-110 through 38.2-134 of the Virginia Insurance Code...

Per the Articles of Incorporation, the Company was authorized to issue 5,000 shares of common stock with a par value of \$200 per share. The Company issued and sold 5,000 shares of common stock at a price of \$900 per share to FBAIC resulting in \$1,000,000 in paid up capital and \$3,500,000 in gross paid in and contributed surplus.

MANAGEMENT AND CONTROL

The bylaws of the Company provide for its affairs to be managed by a board of directors consisting of one or more individuals. The initial board of directors shall consist of nine members as provided in the Articles of Incorporation. At least twenty percent, but not less than one, of the directors shall be persons who are not officers or employees of the Company. Each director shall hold office until the next annual meeting of shareholders or until his successor is duly elected and qualified or until such director's earlier removal, resignation, death or incapacity. Directors may serve for an unlimited number of terms.

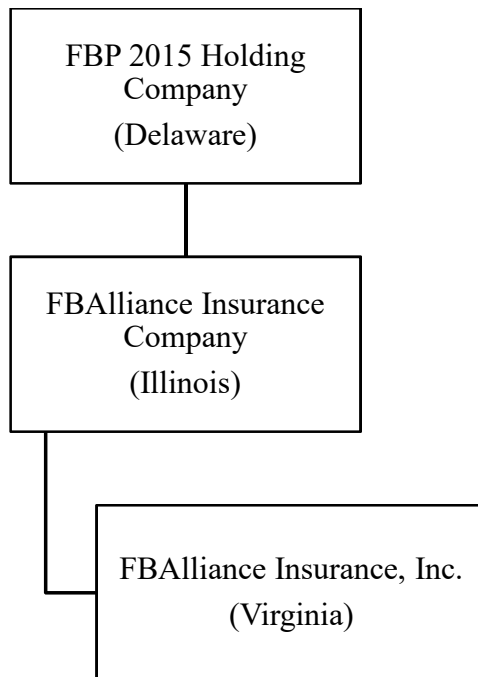
The bylaws also provide that the Company's officers shall be a chief executive officer, first vice president, one or more vice presidents, a secretary, and a treasurer, and such other officers as the board of directors may from time to time provide may include one or more vice presidents and such other officers as the board may deem necessary.

At December 31, 2018, the directors and officers of the Company were as follows:

Directors	Principal Business Affiliation
Rema A. Barnett, Jr.	Retired General Manger Georgia Farm Bureau Insurance Company Macon, Georgia
Steven D. Carroll	Executive Vice President & General Manager North Carolina Farm Bureau Raleigh, North Carolina
James M. Geesey	Chief Executive Officer Mountain West Farm Bureau Insurance Company Laramie, Wyoming
Janet S. Katz	Chief Executive Officer & Executive Vice President American Agricultural Insurance Company Buffalo Grove, Illinois
Joseph A. Martin	Chief Executive Officer & Executive Vice President United Farm Family Mutual Insurance Company Indianapolis, Indiana
Jeffrey L. Pannell	Chief Executive Officer Tennessee Farmers Insurance Company Columbia, Tennessee
John B. Sparrow	Chief Executive Officer & Executive Vice President Kentucky Farm Bureau Mutual Insurance Company Louisville, Kentucky
Robert D. Wallace	President & Chief Executive Officer Southern Farm Bureau Casualty Insurance Company Madison, Mississippi
Darlene P. Wells	Executive Vice President & General Manager Virginia Farm Bureau Mutual Insurance Company Midlothian, Virginia

<u>Officers</u>	<u>Title</u>
Rade T. Musulin	Chief Executive Officer
Jeffrey W. Dillon	Chief Financial Officer and Secretary
Guruprasad N. Rao	Chief Analytics Officer

The Company is a member of a holding company system as defined by the Code of Virginia. The Company is a wholly owned subsidiary of FBAIC, which is wholly owned by FBP 2015 Holding Company (FBP), a Delaware corporation. The following organizational chart illustrates this relationship at December 31, 2018:



FBP was formed in 2014 by nine (9) insurance companies that are associated with the Farm Bureau insurance companies of various states in which the group intends to conduct business. The companies have filed disclaimers of control with the Virginia Bureau of Insurance.

RELATED PARTY TRANSACTIONS

The Company entered into a cost sharing agreement with FBP and FBAIC, effective April 1, 2016, whereby FBAIC provides the personnel and the property, equipment, and facilities that each company determines to be reasonably necessary for its operations. Pursuant to the agreement, expenses are calculated on an actual cost basis and apportioned to the Company and FBP.

The Company entered into a Reinsurance and Administrative Services Agreement dated February 26, 2016, with FBAIC. Under this agreement, FBAIC assumes 100% of the Company's business on a quota share basis net of third-party reinsurance. FBAIC is responsible for performing all administrative services.

The two agreements and related transactions noted above are for internal administrative purposes only since all expenses and revenues are ceded to FBAIC through the quota share agreement. The Company's Statement of Income consists only of Net Investment Gains (Losses).

The Company entered into a tax sharing agreement for the taxable year beginning January 1, 2015, with FBP and FBAIC whereby the affiliates agree to share tax information for the purposes of computing amounts and timing of payments for filing a consolidated federal income tax return for each taxable year. FBP prepares and files the consolidated federal income tax return and any other returns, documents or statements required to be filed with the Internal Revenue Service for the affiliated group. The Company pays to FBP an amount equal to the regular federal income tax liability that it would pay on its taxable income if it were filing a separate unconsolidated return.

TERRITORY AND PLAN OF OPERATION

The Company is a multi-line insurance carrier underwriting primarily personal property and casualty insurance coverage in Virginia. At December 31, 2018, the Company was licensed to write the following lines of business:

Aircraft liability	Fire
Aircraft physical damage	Glass
Animal	Home protection
Automobile liability	Homeowners multiple peril
Automobile physical damage	Inland marine
Boiler and machinery	Legal services
Burglary and theft	Liability other than auto
Commercial multiple peril	Miscellaneous property and casualty
Credit	Mortgage guaranty
Credit involuntary unemployment	Ocean marine
Credit property insurance	Surety
Farmowners multiple peril	Water damage
Fidelity	Workers Compensation & Employer Liability

Business is produced by the agents of the Virginia Farm Bureau Mutual Insurance Company (VFB). The Company has a Claims Service Agreement with VFB. Policyholders can report a claim through an agent, who will then submit the claim to VFB and the Company.

GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from this and previous examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2018:

<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 (Surplus)</u>
2016	\$4,543,993	\$32,085	\$1,000,000	\$3,501,340	\$10,568
2017	4,832,700	296,367	1,000,000	3,501,340	34,993
2018	5,352,824	792,104	1,000,000	3,501,340	59,380

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain or (Loss)</u>
2016	\$0	\$0	\$0	\$0
2017	0	0	0	0
2018	0	0	0	0

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2018. All of the agreements contain an insolvency clause.

Ceded Reinsurance:

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Per Risk Excess of Loss	Property	\$100,000 each risk	\$400,000
Property Surplus Share	Property	\$500,000	\$10,000,000
Occurrence Property Catastrophe	Property	\$500,000	\$8,000,000 excess of \$500,000
Liability Excess of Loss	Liability	\$100,000	<u>Layer 1:</u> \$2,500,000 excess of \$100,000 <u>Layer 2:</u> \$4,500,000 excess of \$2,600,000 <u>Layer 3:</u> \$2,900,000 excess of \$7,100,000

Affiliate Agreements:

On February 16, 2016, the Company entered into a Reinsurance and Administrative Services Agreement with FBAIC. Pursuant to this agreement, the Company cedes 100% of its policies to FBAIC net of third-party reinsurance.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2018. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2018.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$3,581,991		\$3,581,991
Cash and cash equivalents	1,621,393		1,621,393
Investment income due and accrued	13,370		13,370
Uncollected premiums and agents' balances in course of collection	75,802	1,048	74,754
Amounts recoverable from reinsurers	22,773		22,773
Receivables from parent, subsidiaries and affiliates	38,543		38,543
	<u>38,543</u>	<u>1,048</u>	<u>38,543</u>
Totals	<u><u>\$5,353,872</u></u>	<u><u>\$1,048</u></u>	<u><u>\$5,352,824</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Commissions payable, contingent commissions and other similar charges		\$10,747
Other expenses		40,700
Taxes, licenses and fees		21,246
Advance premium		16,557
Ceded reinsurance premiums payable		(26,036)
Funds held by company under reinsurance treaties		<u>728,890</u>
 Total liabilities		 \$792,104
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	3,501,340	
Unassigned funds	<u>59,380</u>	
 Surplus as regards policyholders		 <u>4,560,720</u>
 Totals		 <u><u>\$5,352,824</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$0
Deductions:	
Losses incurred	\$0
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	0
Total underwriting deductions	\$0
Net underwriting gain	\$0

INVESTMENT INCOME

Net investment income earned	\$25,435
Net investment gain	\$25,435
Net income before federal income taxes	\$25,435
Federal income taxes incurred	0
Net income	\$25,435

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Surplus as regards policyholders, December 31, previous year	<u>\$0</u>	<u>\$4,511,908</u>	<u>\$4,536,333</u>
Net income	\$10,568	\$24,425	\$25,435
Change in nonadmitted assets			(1,048)
Capital changes:			
Paid in	1,000,000		
Surplus adjustments:			
Paid in	<u>3,501,340</u>		
Change in surplus as regards policyholders for the year	<u>\$4,511,908</u>	<u>\$24,425</u>	<u>\$24,387</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$4,511,908</u></u>	<u><u>\$4,536,333</u></u>	<u><u>\$4,560,720</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$6,345
Net investment income	28,536
Total	<u>\$34,881</u>
Benefit and loss related payments	\$22,774
Commissions, expenses paid and aggregate write-ins for deductions	<u>(128,329)</u>
Total	<u>(\$105,555)</u>
Net cash from operations	<u>\$140,436</u>

Cash From Investments

Cost of investments acquired (long-term only):	
Bonds	<u>\$249,893</u>
Total investments acquired	<u>\$249,893</u>
Net cash from investments	<u>(\$249,893)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	<u>\$391,003</u>
Net cash from financing and miscellaneous sources	<u>\$391,003</u>
Net change in cash and short-term investments	<u>\$281,546</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$1,339,847
End of year	<u>1,621,393</u>
Net change in cash and short-term investments	<u>\$281,546</u>

SUBSEQUENT EVENT

Rade T. Musulin resigned as chief executive officer in August 2019. He was replaced by Geri R. Powell on October 14, 2019.

ACKNOWLEDGMENT

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

Respectfully submitted,

T. Bradford Earley Jr

T. Bradford Earley, Jr., CFE, CPCU, AIAF
BOI Manager

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FBAAlliance[®]

INSURANCE

June 17, 2020

David H. Smith
Chief Examiner
Virginia Bureau of Insurance

Mr. Smith:

I have received a draft copy of the examination of FBAAlliance Insurance Inc as of December 31, 2018. The report appears satisfactory to me and I have no further questions. I appreciate your attention to this report and the professionalism of your staff dedicated to its development.

Please let me know if you have any further questions or need of additional information.

Sincerely,



Geri Powell

Chief Executive Officer