

REPORT ON EXAMINATION
OF
ALLIANCE INSURANCE COMPANY, INC.
1122 NORTH MAIN STREET
MCPHERSON, KANSAS 67460
AS OF
DECEMBER 31, 2021

APPROVED & FILED

APR 04 2023

VICKI SCHMIDT
Commissioner of Insurance

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION.....	1
SCOPE OF EXAMINATION	1
Independent Audit Reports	3
Actuarial Review	3
SUMMARY OF SIGNIFICANT FINDINGS	4
COMPANY HISTORY	4
General	4
Capital Stock.....	4
Dividends and Capital Contributions	4
CORPORATE RECORDS.....	4
Stockholders	5
Board of Directors	5
Committees	6
Officers.....	7
INSURANCE HOLDING COMPANY SYSTEM	8
Intercompany/Cost Sharing Agreements	9
TERRITORY AND PLAN OF OPERATION.....	10
SELECT FINANCIAL INFORMATION.....	11
REINSURANCE	11
General	11
Assumed Reinsurance	11
Ceded Reinsurance	12
FINANCIAL STATEMENTS	13
STATEMENT OF ASSETS	14
STATEMENT OF LIABILITIES AND SURPLUS	15
STATEMENT OF INCOME	16
CAPITAL AND SURPLUS ACCOUNT	17
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	18
COMMENTS ON FINANCIAL STATEMENTS	18
SUBSEQUENT EVENTS	18
SUMMARY OF RECOMMENDATIONS.....	18
CONCLUSION	19
SUPERVISION.....	20

McPherson, Kansas
March 13, 2023

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

ALLIANCE INSURANCE COMPANY, INC.

with its statutory home office at:

**1122 NORTH MAIN STREET
MCPHERSON, KANSAS**

and main administrative office at:

**1122 NORTH MAIN STREET
MCPHERSON, KANSAS**

hereinafter referred to as the "Company" or "AIC." The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of the Company, a Kansas-domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2014, through December 31, 2017. This examination covers the four-year period from January 1, 2018, through December 31, 2021.

The examination was performed concurrently with the examination of the

Company's parent and affiliate: Farmers Alliance Mutual Insurance Company ("FAMI") and Alliance Indemnity Company ("AInC"), collectively referred to as "The Alliance Group". The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department ("Department") and the observed guidelines and procedures contained in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires that the examiners plan and perform the examination to evaluate the 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.

Those activities considered in the examination as key or critical to AIC included Capital Management, Expenses, Investments, Reinsurance, Related Party, Reserving, Taxes, and Underwriting and Pricing. The examination also included a review and evaluation of information technology general controls.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment is documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, 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 are separately communicated to other regulators and/or the Company.

Independent Audit Reports

The consolidated financial statements of The Alliance Group were audited by Strohm Ballweg, LLP of Middleton, Wisconsin for the years ending December 31, 2018, through December 31, 2021. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Company as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on selected workpapers during this examination.

Actuarial Review

The Company retained the services of Willis Towers Watson, Russell L. Sutter, FCAS, MAAA of St. Louis, Missouri to perform a review of the actuarial practices and reserves as of December 31, 2021. Willis Towers Watson's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in their reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were identified during the examination.

COMPANY HISTORY

General

The Coronado Reinsurance Company, Inc. was incorporated on February 2, 1960, under K.S.A. 40-901 *et seq.* On July 8, 1969, the Company's articles of incorporation were amended to expand their authority to write casualty lines as provided by K.S.A. 40-1101 *et seq.* On December 10, 1968, the articles were further amended to change the name of the Company to Coronado Insurance Company, Inc., and again on October 1, 1969, to change the name to its current title, Alliance Insurance Company, Inc.

The Company's charter provides for a perpetual existence.

Capital Stock

The Company's articles of incorporation authorize the issuance of 3,333 shares of common stock with a par value of \$700.123 per share. As of December 31, 2021, the parent, FAMI, owned 100% of 2,166 issued and outstanding shares resulting in a total paid-up common capital stock amount of \$1,516,466. Gross paid in and contributed surplus was \$758,660. No preferred stock is authorized.

Dividends and Capital Contributions

During the period under examination, no dividends were paid to FAMI and no capital contributions were made.

CORPORATE RECORDS

The Company's articles of incorporation that were last amended on February 22,

2008, were reviewed. The Company's bylaws that were last amended on January 15, 2020, were reviewed. The amendment to the bylaws revised the minimum number of directors; minimum number of directors elected by stockholders at each annual meeting; officer titles and qualifications of officers; election of members to the governance committee and finance committee; responsibilities and duties for the executive committee, finance committee, compensation committee, and governance committee.

MANAGEMENT AND CONTROL

Stockholders

The Company is controlled by its stockholder, FAMI, and managed by a Board of Directors ("Board").

Board of Directors

The Company's bylaws consist of fifteen (15) articles that provide the framework for the operation, management, and control of the Company. The Company is controlled by FAMI and managed by a common Board.

Pursuant to the Company's bylaws, the Board consists of no less than seven (7) and not more than thirteen (13) directors. At the annual meeting of stockholders, no less than two (2) directors are elected, each of whom will hold office for a term of three years or until a successor is elected and qualified or until such director's earlier resignation or removal. Should a vacancy occur on the Board, the remaining directors elect a successor to serve until the next annual meeting, at which time a successor is elected by vote of stockholders to fill the unexpired term.

Board meetings are to be held no less than quarterly. Special meetings of the Board will be called by the Company President when, in his judgment, the interests of the

Company require it or upon written application from members of the Board.

The following is a listing of directors elected and serving as of December 31, 2021:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Vincent Robert Amanor-Boadu	Agribusiness Economics & Management Professor Kansas State University
Lloyd Keith Birkhead	Chairman of the Board Farmers Alliance Mutual Insurance Company
Eric James Larson	Attorney at Law Bever Dye, LC
Brian David Lopata	President, Chief Executive Officer Farmers Alliance Mutual Insurance Company
Marilyn Bernadine Pauly	Vice Chairman Commerce Bank Wichita
Brett Alan Reber	Attorney at Law Wise & Reber, LC
Donald William Schwegman	Retired CPA Partner
Ernest William Weeks, III	Retired Underwriting Executive

Committees

The Company's bylaws indicate that the Board may elect members to various committees of the Board. As of December 31, 2021, the Board has established an executive committee, governance committee, finance committee, audit and risk committee, and compensation committee. The established committees and members elected and serving as of December 31, 2021, were as follows:

Audit and Risk Committee

Vincent R. Amanor-Boadu
Eric J. Larson
Marilyn B. Pauly
Brett A. Reber
Donald W. Schwegman*
Ernest W. Weeks, III

Compensation Committee

Vincent R. Amanor-Boadu
Eric J. Larson
Marilyn B. Pauly
Brett A. Reber*
Donald W. Schwegman

Corporate Governance Committee

Vincent R. Amanor-Boadu*
Lloyd K. Birkhead
Brian D. Lopata
Brett A. Reber
Donald W. Schwegman
Ernest W. Weeks, III

Executive Committee

Lloyd K. Birkhead
Eric J. Larson*
Brian D. Lopata
Marilyn B. Pauly
Brett A. Reber

Finance Committee

Vincent R. Amanor-Boadu
Eric J. Larson
Marilyn B. Pauly*
Brett A. Reber
Donald W. Schwegman

*Committee Chair

Officers

Pursuant to the bylaws, the Company will have a chairman of the board, president, executive vice-president, senior vice-president, secretary, and a treasurer appointed by the Board. Officers are elected for a term of one (1) year and to the time of qualification of any successor to such office. Vacancies for any position are filled by officers for the balance of the term in which the election may occur. The following is a listing of officers elected and serving as of December 31, 2021:

<u>Name</u>	<u>Office</u>
Brian David Lopata	President & CEO
Walter Paul Taliaferro*	Treasurer, Secretary and Chief Financial Officer
Andrew Lee Edwardson	Senior Vice President – Chief Information Officer
Ryan Paul Hicks	Senior Vice President – Chief Human Resources Officer
John Michael Rader	Senior Vice President – Reinsurance & Chief Marketing Officer
Aaron James Valentine	Senior Vice President – Chief Insurance Officer
Tonya Kay Schafer	Vice President, Product and Compliance
Randall Leon Lutgen	Vice President, Underwriting
Brian Scott Schmidt	Vice President, Claims

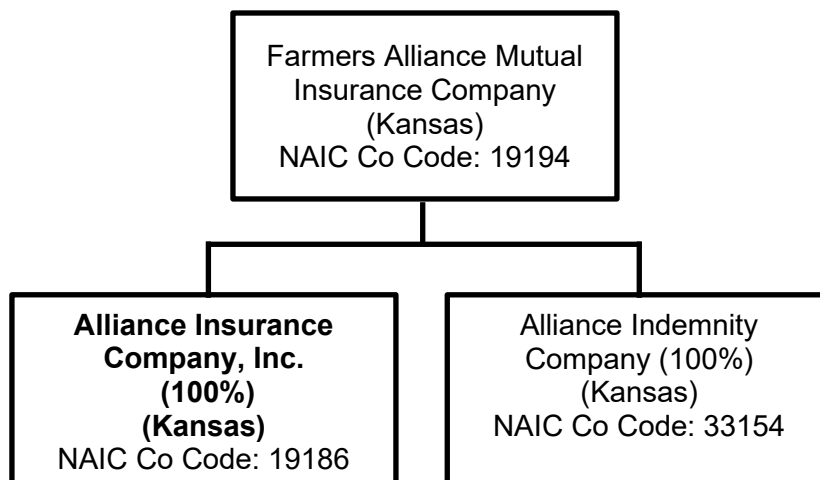
*Walter Paul Taliaferro retired from his position as CFO on November 30, 2022. On December 2, 2022, the Board of Directors appointed Aaron Valentine as Chief Financial and Risk Officer.

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 and K.A.R. 40-1-28 require a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance.

The Company’s parent, FAMI, has submitted Form “B” and “C” registration statements to the Department on a consolidated basis with its subsidiaries, AIC and AInC, for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The organizational chart below illustrates the identities and intercompany relationships among insurance companies and the controlling entity thereof as of December 31, 2021. The insurance companies are wholly owned by FAMI and are all Kansas insurance domestics.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliated entities that were in effect as of December 31, 2021.

Intercompany Quota Share Reinsurance Agreement

Effective January 1, 1979, the Company entered into an Intercompany Quota Share Reinsurance Agreement with its parent, FAMI, and affiliate, AInC. FAMI is the lead company in the Agreement with AIC and AInC. Under the provisions of the Agreement, both AIC and AInC cede 100% of their premiums to FAMI. Of the business remaining after cessions to non-affiliated insurance companies, FAMI retains 87.5% of the pooled business and then retro-cedes 10% to AIC and 2.5% to AInC. All expenses directly attributable to the business ceded by AIC and AInC are divided in the same proportion as premiums ceded. Net amounts incurred including premiums, losses paid, and other relevant expenses in accordance with the agreement for each of the years under examination were \$2,539,394, \$3,681,459, \$5,090,441, and \$5,016,764 as of December 31, 2018, 2019, 2020 and 2021, respectively.

Tax Allocation Agreement

Effective December 31, 2007, the Company entered into a Tax Allocation

Agreement with the parent, FAMI, and affiliate, AlnC, to file consolidated federal income tax returns with respect to the income tax imposed by Chapter 1 of the Internal Revenue Code in lieu of filing separate tax returns for each member of the holding company group. Balances are settled within sixty (60) days after the filing of the consolidated return.

Administrative Services Agreement

Effective October 1, 2015, the Company, its parent, FAMI, and its affiliate, AlnC, entered into an Administrative Services Agreement whereby FAMI agrees to render certain financial, legal, actuarial, marketing, administrative, claims administration and adjusting, underwriting, policy service and other services and share all costs allocated among each company based on the Intercompany Quota Share Reinsurance Agreement percentages. Balances due are calculated monthly as part of the intercompany payable or receivable and require settlement of outstanding amounts between parties within ninety (90) days in accordance with the Intercompany Quota Share Reinsurance Agreement. Net expense amounts paid in accordance with the terms of the agreement for the years of examination were \$3,063,361, \$2,578,954, \$2,919,995, and \$2,871,716 for 2018, 2019, 2020, 2021, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company is authorized to transact business in the following eight (8) states: Colorado, Idaho, Kansas, Missouri, Montana, Nebraska, North Dakota, and South Dakota. The NAIC Schedule T Exceptions Report was reviewed for each state where the Company is licensed. No exceptions were noted.

As of December 31, 2021, the Company's largest line of business was homeowners' multi-perils at 98.5% of direct premiums written. The remaining 1.5%

represented premiums written on inland marine and earthquake.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2018, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<i>(\$000 omitted)</i>				
Admitted Assets	\$25,653	\$27,210	\$29,856	\$32,398
Liabilities	13,614	14,514	16,024	17,436
Capital and Surplus	12,039	12,696	13,832	14,962
Net Income (Loss)	284	631	1,106	1,111
Net Premium Written	17,259	18,218	19,170	20,102

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below.

<i>(\$000s omitted)</i>				
Premium Type	2018	2019	2020	2021
Direct Premiums Written	\$ 12,355	\$ 12,524	\$ 12,546	\$ 13,145
Reinsurance Assumed	17,259	18,218	19,170	20,102
Reinsurance Ceded:	12,355	12,524	12,546	13,145
Net Premiums Written	\$ 17,259	\$ 18,218	\$ 19,170	\$ 20,102

Assumed Reinsurance

The Company's assumed reinsurance is predominantly comprised of the following:

1. Premium assumed from the parent, FAMI, under 100% Intercompany Quota Share contracts.

Ceded Reinsurance

The Company enters into reinsurance contracts to mitigate risk and manage net premium growth. The reinsurance partners consist of authorized and unauthorized professional reinsurers. The reinsurance programs are structured by individual program partners. The Company's reinsurance program reflects the specialty program nature of the business, with individual reinsurance programs in place.

FAMI limits the maximum net loss that can arise from significant risks or risks in concentrated areas of exposure by reinsuring certain levels of risk with other insurers or reinsurers, either on an automatic basis under general reinsurance contracts or by negotiation on individual risks. There is a comprehensive reinsurance program in place that includes property and casualty excess of loss, fidelity, and surety bond excess of loss, commercial catastrophe excess of loss, three layers of property catastrophe excess of loss, and aggregate catastrophe excess of loss coverage.

Per risk Excess of Loss:

The Company has per-risk property and casualty excess of loss treaties with General Reinsurance Corporation. The casualty treaty covers automobile, and other liability with two layers: the first layer is \$500,000 excess of \$500,000, and the second layer is \$4 million excess of \$1 million. The property treaty covers property with three layers: the first layer is \$500,000 not to exceed \$1.5 million, all risks in one occurrence; the second layer is \$1 million not to exceed \$2 million, all risks in one occurrence; and the third layer is \$2 million not to exceed \$4 million all risks in one occurrence.

Catastrophe Coverage:

The property catastrophe excess of loss agreement has multiple layers with

various reinsurers. The first layer is \$5 million excess of \$7 million, the second layer is \$13 million excess of \$12 million, and the third layer is \$25 million excess of \$25 million. The property aggregate excess of loss agreement is with various reinsurers with \$12 million excess of \$46.6 million.

Other Coverages:

The personal business and commercial umbrella policy is written by General Reinsurance Corporation with \$900,000 excess of \$1 million.

Mutual Boiler Re reinsures equipment breakdown coverage with contract limits of \$25 million any one policy.

General Reinsurance Corporation reinsures the cyber liability coverage with contract limits of \$100,000 excess of \$2,500.

All ceded reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

**ALLIANCE INSURANCE COMPANY, INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2021**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$25,067,901	\$ -	\$25,067,901
Cash and cash equivalent	5,303,087	-	5,303,087
Investment income due and accrued	159,621	-	159,621
Amounts recoverable from reinsurers	1,393,748	-	1,393,748
Net deferred tax asset	473,646	-	473,646
	<u>\$32,398,003</u>	-	<u>\$32,398,003</u>

**ALLIANCE INSURANCE COMPANY, INC.
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2021**

Losses	\$ 5,448,964
Loss adjustment expenses	682,693
Commissions payable, contingent commissions and other similar changes	497,246
Other expenses	43,532
Taxes, licenses and fees	149,776
Current federal and foreign income taxes	286,695
Unearned premiums	10,327,282
Total liabilities	<u>17,436,188</u>
Common capital stock	1,516,466
Gross paid in and contributed surplus	758,660
Unassigned funds (surplus)	12,686,692
Surplus as regards policyholders	<u>14,961,818</u>
Totals	<u><u>\$ 32,398,006</u></u>

**ALLIANCE INSURANCE COMPANY, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021**

Premiums earned	\$19,482,466
DEDUCTIONS	
Losses incurred	10,897,632
Loss adjustment expense incurred	1,688,259
Other underwriting expenses incurred	5,903,222
Total underwriting deductions	<u>18,489,113</u>
 Net underwriting gain	 993,353
 INVESTMENT INCOME	
Net investment income earned	363,021
Net realized capital gains (losses) less capital gains tax	15,760
Net investment gain (loss)	<u>378,781</u>
 OTHER INCOME	
Aggregate write-ins for miscellaneous income	24,062
Total other income	<u>24,062</u>
 Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	 <u>1,396,196</u>
Net income, after dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	1,396,196
Federal and foreign income taxes incurred	285,162
Net income	<u>\$ 1,111,034</u>

**ALLIANCE INSURANCE COMPANY, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE THE LAST EXAMINATION**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31				
prior year	\$ 11,738,175	\$ 12,038,710	\$ 12,696,242	\$ 13,831,904
Net income (loss)	283,874	630,848	1,105,686	1,111,034
Change in net deferred income tax	16,662	26,684	29,976	18,878
Rounding	0	0	0	1
Surplus as regards policyholders, December 31				
current year	<u>\$ 12,038,711</u>	<u>\$ 12,696,242</u>	<u>\$ 13,831,904</u>	<u>\$ 14,961,817</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. Accordingly, the capital and surplus of the Company as of December 31, 2021, was \$14,961,818, which was the same amount reported by the Company in its 2021 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, 2021, and 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there had not been a significant impact on the Company. However, the Department will continue to monitor the impact of the pandemic on the Company closely and will take necessary action if concerns arise.

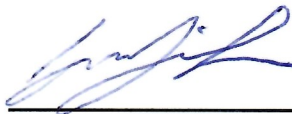
SUMMARY OF RECOMMENDATIONS

The examination did not result in any material findings. Therefore, no recommendations were made.

CONCLUSION

The assistance and cooperation of the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kyra Brown, MBA, ARC, Senior Examiner; Dennis Schaeffer, CISSP, CISA, IT Manager; TJ Helm, CISA, Senior IT Examiner; Dave Wolfe, ACAS, MAAA, Actuarial Manager; Katelyn Stauder, Actuary Consultant, and Nathan Bolles, Actuary Consultant all of whom are Baker Tilly, US, LLP associates, participated in this examination.

Respectfully submitted,



Junjie "JJ" Pan, CPA, CFE
Examiner-in-Charge
Baker Tilly, US, LLP, representing the Kansas
Insurance Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures, and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas,

County of Shawnee,

Junjie Pan, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Alliance Insurance Company, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Alliance Insurance Company, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

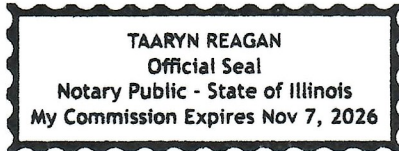
The affiant says nothing further.



Examiner's Signature

Subscribed and sworn before me by Junjie Pan on this 28 day of March 2023.

(SEAL)



Notary Public

My commission expires 11/07/2026 [date].