

REPORT ON EXAMINATION

OF

UNITRIN ADVANTAGE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

MAY 26, 2020

EXAMINER

ADEBOLA AWOFOESO

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

May 26, 2020

Honorable Linda A. Lacewell
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31847 dated December 12, 2018 attached hereto, I have made an examination into the condition and affairs of Unitrin Advantage Insurance Company as of December 31, 2018 and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Unitrin Advantage Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 200 East Randolph Street, Chicago, Illinois 60601.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Unitrin Advantage Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018 Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the State of Illinois which was the lead state of the Kemper Corporation Group. Other states participating in this examination were: California, Louisiana, Missouri, Ohio, Oklahoma, Oregon, Texas, Wisconsin and Virginia.

The examination was performed concurrently with the examinations of the following property and casualty insurers: Kemper Financial Indemnity Company (IL), Kemper Independence Insurance Company (IL), Merastar Insurance Company (IL), Response Insurance Company (IL), Response Worldwide Direct Auto Insurance Company (IL), Response Worldwide Insurance Company (IL), Unitrin Direct Insurance Company (IL), Unitrin Direct Property and Casualty Company (IL), Warner Insurance Company (IL), Trinity Universal Insurance Company (TX), Unitrin County Mutual Insurance Company (TX), Unitrin Auto and Home Insurance Company (NY), Unitrin Preferred Insurance Company (NY), Unitrin Safeguard Insurance Company (WI), Valley Property & Casualty Insurance Company (OR), Financial Indemnity Company (IL), Charter Indemnity Company (TX), Capitol County Mutual Insurance Company (TX), Alpha Property and Casualty Insurance Company (WI), and Alliance United Insurance Company (CA)

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Unitrin Advantage Insurance Company was incorporated under the laws of the State of New York on June 20, 1997 and became licensed as an insurer on December 2, 1997, as First Madison Insurance Company. In 1998 and then in 2001, respectively, the Company changed its name to MasterCare Insurance Company of New York, and then to Unitrin Direct Advantage Insurance Company. In 2002, the Company adopted its current name. The Company is a wholly owned subsidiary of Trinity Universal Insurance Company (“Trinity”), a Texas domiciled company. Trinity is a wholly owned subsidiary of Kemper Corporation, a Delaware corporation.

A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than thirteen members. The board meets at least once during each calendar year. At December 31, 2018, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Michael Boschelli Geneva, Illinois	Executive Vice President and Chief Investment Officer, Kemper Corporation
Deirdre Lynne Fisher Oneida, New York	Senior Casualty Claims Manager, Property & Casualty Division, Kemper Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Troy Johnathan McGill Cross Plains, Wisconsin	Vice President, Tax Division, Kemper Corporation
Maxwell Thomas Mindak Elmhurst, Illinois	Vice President and Chief Risk Officer, Kemper Corporation
Christopher Lamont Moses Chicago, Illinois	Vice President and Treasurer, Kemper Corporate Services, Inc.
Robert Francis Otis Glenview, Illinois	Senior Vice President and President, Personal Insurance Division, Kemper Corporation
Richard Roeske Naperville, Illinois	Vice President and Chief Accounting Officer, Kemper Corporation

As of December 31, 2018, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert Francis Otis	President
John Michael Vrijmoet	Vice President and Secretary
Andrew Duncan MacDonald	Senior Vice President
Nathan Alexander Smith	Treasurer

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business in New York only. It stopped writing new business effective December 31, 2017.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$700,000.

The following schedule shows the direct premiums written by the Company for the period under examination. The Company did not assume any business during the examination period.

<u>Calendar Year</u>	<u>Total Gross Premiums</u>
2014	\$3,695,997
2015	\$3,304,684
2016	\$2,697,887
2017	\$2,508,994
2018	\$(105,625)

During the examination period, the Company wrote only New York assigned risk private passenger auto liability and auto physical damage business.

Effective January 1, 2018, the Company became a party to the Limited Assignment Distribution Program Agreement ("LAD Agreement") with Integon National Insurance Company ("Integon") through which the Company's business was assigned to Integon.

C. Reinsurance Ceded

Prior to its participation in the LAD Agreement, the Company had in place a 100% quota share reinsurance agreement, effective January 1, 2009, with its direct parent, Trinity. The Company ceded 100% of its net liability, premiums, losses, and other expenses for existing, new, and renewal business, net of unaffiliated reinsurance to Trinity. Additionally, existing losses were retroactively transferred to Trinity as well. As a result of this agreement, the Company retained no underwriting risk.

At December 31, 2018, the Company reported approximately \$3.9 million in reinsurance recoverables from Trinity. These reinsurance recoverables are the Company's most significant financial item, and ultimately the Company's most significant financial risk is its ability to collect on these reinsurance recoverables. It is noted that Trinity was examined concurrently with the Company, and there were no financial adjustments that impacted Trinity's surplus as a result of the examination.

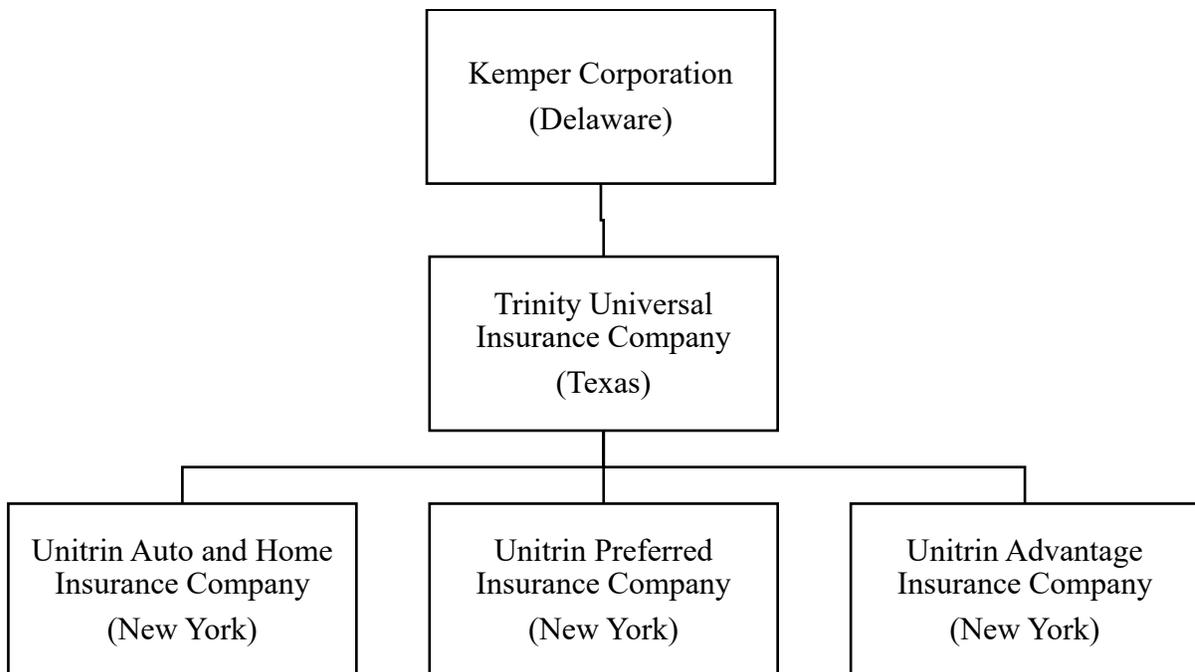
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62R.

D. Holding Company System

The Company is a member of the Kemper Corporation Group. The Company is a wholly owned subsidiary of Trinity Universal Insurance Company, a Texas domiciled corporation, which is ultimately controlled by Kemper Corporation. Kemper Corporation is a public holding company incorporated in Delaware, which through its subsidiaries, is engaged in the property and casualty insurance and life and health insurance businesses. It operates solely in the United States.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2018:



Holding Company Agreements

At December 31, 2018, the Company was party to the following agreements with other members of its holding company system:

General Services - Policy Administration Agreement

Effective January 1, 2009, the Company and Merastar Insurance Company (“MIC”), a wholly owned subsidiary of Trinity, entered into a general service agreement whereby MIC shall administer the new and renewal property and casualty lines insurance business of the Company, including marketing, underwriting, subject to the Company’s written guidelines, and claims administration.

General Services Agreement

Effective December 31, 2015, Unitrin Services Company (“USC”), which subsequently changed its name to Kemper Corporate Services, Inc. provides the following services to the Company: trade execution and investment analysis; financial accounting and reporting; purchasing and accounts payable; investment accounting; tax return preparation; tax accounting and tax advice; maintenance and benefits plans; administration of post-retirement medical benefits; benefit plan regulatory reporting and support; risk management; automobile fleet management; internal audit; cash management and bank relations; financial planning and analysis of results of operations; capital project review and evaluation; real estate management; corporate secretarial functions; and legal support and advice.

Information Technology Services Agreement

Effective January 1, 2009, the Company and Unitrin Direct Property & Casualty Company (“UDPC”) entered into an information technology services agreement whereby UDPC shall provide information technology applications and consulting services on technology that is shared among Kemper Corporation property and casualty affiliates.

Computer Service Agreement

Effective July 1, 2010, the Company and USC entered into a computer service agreement whereby USC shall provide computer data processing services to the Company using computer systems maintained by USC including: mainframe, midrange and minicomputer and other central processors and controllers; data storage devices, cartridges and tape drives; MVS, UNIX and other operating system software; and network software; routers and other network and telecommunications equipment and lines located at its data center facilities; and internet and intranet access software and systems.

The above-noted agreements were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

In 2018, no material transactions were effectuated through these agreements.

Tax Allocation Agreement

The Company is included in a consolidated federal income tax return with the Kemper Corporation Group. The tax allocation agreement states that each participant in the agreement shall be allocated tax as if they filed a separate company return. In 2009, the agreement was amended to include additional new affiliates. The agreement and amendment were filed with the Department pursuant to Department Circular Letter No.33 (1979).

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2018, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	0%
Adjusted liabilities to liquid assets	9%
Two-year overall operating	0%

The premium ratios reflected above are not meaningful given that the Company is no longer writing business.

The Company's reported risk-based capital ("RBC") score was 31,045% at December 31, 2018. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC score of 200% or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2018, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$2,527,437	\$ 0	\$2,527,437
Cash, cash equivalents and short-term investments	450,567	0	450,567
Investment income due and accrued	28,111	0	28,111
Uncollected premiums and agents' balances in the course of collection	12,689	59	12,630
Deferred premiums, agents' balances and installments booked but deferred and not yet due	28,323	0	28,323
Receivables from parent, subsidiaries and affiliates	13,074	0	13,074
Prepaid other	16,057	16,057	0
Premium tax receivable	<u>60,117</u>	<u>0</u>	<u>60,117</u>
Total assets	<u>\$3,136,375</u>	<u>\$16,116</u>	<u>\$3,120,259</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$	0
Commissions payable, contingent commissions and other similar charges		400
Other expenses (excluding taxes, licenses and fees)		156,280
Taxes, licenses and fees (excluding federal and foreign income taxes)		109,740
Current federal and foreign income taxes		(5,506)
Net deferred tax liability		687
Ceded reinsurance premiums payable (net of ceding commissions)		<u>41,012</u>
Total liabilities	\$	302,613

Surplus and Other Funds

Common capital stock	\$1,000,000
Gross paid in and contributed surplus	1,835,202
Unassigned funds (surplus)	<u>(17,556)</u>
Surplus as regards policyholders	<u>2,817,646</u>
Total liabilities, surplus and other funds	<u>\$3,120,259</u>

Note: Audits covering tax years 2014 through 2017 are currently under examination by Internal Revenue Service. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$430,793, as detailed below:

Underwriting Income

Net underwriting gain or (loss)		\$ 0
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Investment Income

Net investment income earned	\$439,032	
Net realized capital gains or (losses)	<u>11,258</u>	
Net investment gain (loss)		450,290

Other Income

Total other income		<u>0</u>
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Net income after dividends to policyholders but before federal and foreign income taxes		\$450,290
Federal and foreign income taxes incurred		<u>19,497</u>

Net income		<u>\$430,793</u>
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C. Capital and Surplus

Surplus as regards policyholders increased \$479,941 during the five-year examination period January 1, 2014 through December 31, 2018, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2013			\$2,337,705
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$430,793		
Change in net deferred income tax		\$72,249	
Change in non-admitted assets	<u>121,397</u>	<u>0</u>	
Total gains and losses	\$552,190	\$72,249	
Net increase (decrease) in surplus			<u>479,941</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2018			<u>\$2,817,646</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$1,000,000 consisting of 1,000,000 shares of \$1 par value per share common stock. Gross paid in and contributed surplus is \$1,835,202. There were no changes in capital paid in and contributed surplus from the prior examination date to the current examination date.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2018.

At the examination date, due to the 100% quota share agreement with Trinity, the Company has taken reinsurance reserve credit for losses ceded of approximately \$3.9 million. The Company has additionally reduced its unearned premium reserve by approximately \$37,000.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The risks and uncertainties surrounding the COVID-19 pandemic may impact the Company’s, and its competitors’, operational and financial performance. The extent of the impact of the COVID-19 pandemic on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets. All of these developments are uncertain and cannot be predicted. The related financial impact cannot be reasonably estimated at this time.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Adebola Awofeso,
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

ADEBOLA AWOFESO, being duly sworn, deposes and says that the foregoing report,
subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Adebola Awofeso

Subscribed and sworn to before me

this _____ day of _____, 2020.

APPOINTMENT NO. 31847

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Adebola Awofeso

as a proper person to examine the affairs of the

Unitrin Advantage Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 12th day of December, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief