

REPORT ON EXAMINATION

OF

UNITRIN PREFERRED INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

MAY 26, 2020

EXAMINER

ADEBOLA AWOFESO

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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 Preferred 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 Preferred 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 Preferred Insurance Company, a multi-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 Advantage Insurance Company (NY), Unitrin Auto and Home 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

The Company was incorporated on September 28, 1942, under the laws of the State of New York as The Unity Fire Insurance Corporation to act as the successor to the United States Branch of The Union Fire, Accident & General Insurance Company of Paris, France. The Company was licensed and commenced business on October 13, 1942. In 1950, the Company adopted the name The Unity Fire and General Insurance Company.

Effective July 3, 1990, SCOR U.S. Corporation (“SCOR”) acquired, and absorbed by merger, the Company’s former parent, Rockleigh Management Corporation; therefore, the Company became a subsidiary of SCOR. On April 8, 1996, the Company changed its name to General Security Property and Casualty Company.

Effective December 31, 2002, Unitrin, Inc., which subsequently changed its name to Kemper Corporation, acquired 100% of the common stock of the Company from SCOR. As part of the acquisition, the Company ceded on an indemnity basis, all of its insurance related assets and liabilities in force on or before December 31, 2002 to General Security National Insurance Company, pursuant to an indemnity and assumption agreement. Additionally, the stock purchase agreement provided for the return of capital by the Company to SCOR in the amount of \$6,199,470, in order to reduce the net assets of the Company to the amount agreed to in the sale agreement. The acquisition was approved by the Department on December 23, 2002.

On February 18, 2003, the Company's name was changed to its current title. On December 29, 2003, the Company became a wholly owned subsidiary of Trinity Universal Insurance Company ("Trinity"), which is a wholly owned subsidiary of Kemper 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
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 20 states and the District of Columbia.

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>
3	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Worker's compensation and employer's liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 \$2,200,000

The following schedule shows the total gross premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Gross Premiums</u>
2014	\$61,137,886
2015	\$55,420,253
2016	\$52,102,699
2017	\$46,942,446
2018	\$39,447,302

The Company does not assume business. The Company's predominant lines of business comprised 93.79% of direct written premium in 2018, with homeowners' multiple peril, private passenger auto liability and auto physical damage accounting for 40.70%, 32.92%, and 20.17%, respectively. The business is produced through independent agents and brokers.

Due to the reinsurance program described below, the net exposure of the Company is significantly different than its direct exposure.

C. Reinsurance Ceded

Pursuant to a 100% quota share reinsurance agreement with its direct parent, Trinity, the Company cedes 100% of its net liability, premiums, losses, and other expenses for existing, new, and renewal business, net of unaffiliated reinsurance, to Trinity. This agreement became effective on January 1, 2009. Additionally, existing losses were retroactively transferred to Trinity as well. As a result of this agreement, the Company retains no underwriting risk.

The quota-share reinsurance agreement was filed and non-disapproved by the Department pursuant to the provisions of Section 1505(d) (2) of the New York Insurance Law.

At December 31, 2018, the Company reported approximately \$38.4 million in reinsurance recoverables from Trinity, an accredited reinsurer. 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.

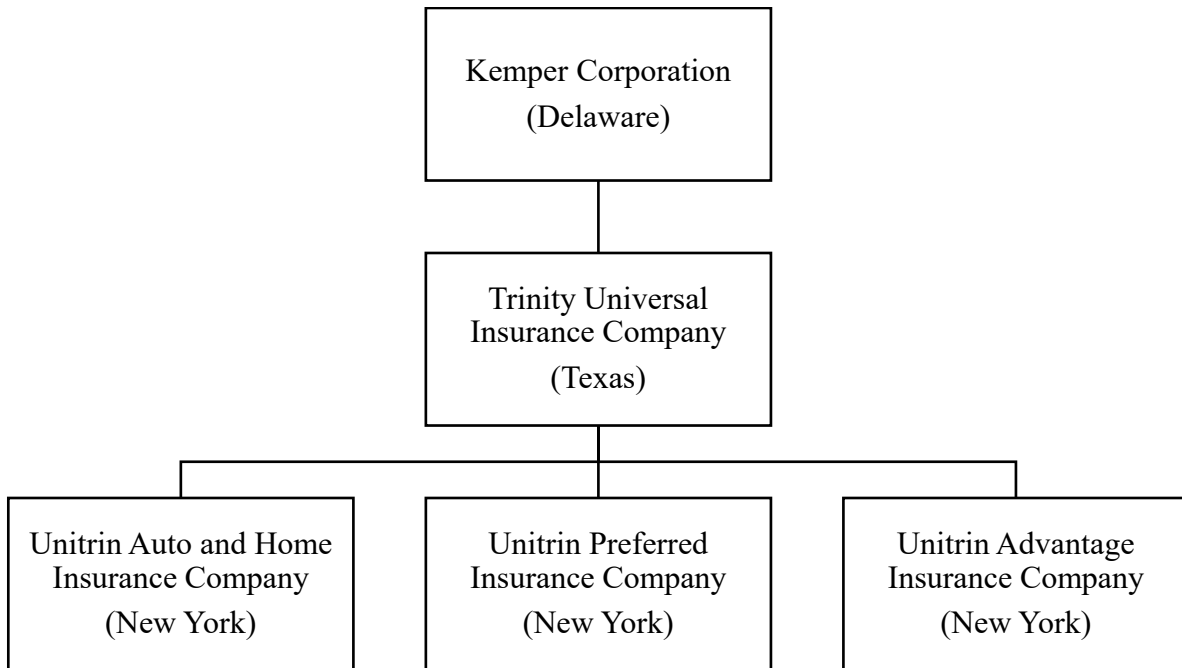
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in 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 insurance company, 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, 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.

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	25%
Two-year overall operating	0%

The premium ratios reflected above are not meaningful given the Company's 100% cession to Trinity.

The Company's reported risk-based capital ("RBC") score was 17,836.70% 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	\$9,976,214	\$ 0	\$9,976,214
Cash, cash equivalents and short-term investments	585,383	0	585,383
Invested assets	700		700
Investment income due and accrued	106,033	0	106,033
Uncollected premiums and agents' balances in the course of collection	1,146,801	1,863	1,144,938
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,953,493	0	6,953,493
Net deferred tax asset	58,590	0	58,590
Guaranty funds receivable or on deposit	80,273	0	80,273
Premium tax receivable	671,752	0	671,752
Prepaid expenses	45,857	45,857	0
SCOR receivable	<u>46,357</u>	<u>46,357</u>	<u>0</u>
Total assets	<u>\$19,671,453</u>	<u>\$94,077</u>	<u>\$19,577,376</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$	0
Commissions payable, contingent commissions and other similar charges		520,963
Other expenses (excluding taxes, licenses and fees)		58,443
Taxes, licenses and fees (excluding federal and foreign income taxes)		176,091
Advance premium		469,892
Ceded reinsurance premiums payable (net of ceding commissions)		8,102,829
Payable to parent, subsidiaries and affiliates		<u>276,830</u>
Total liabilities		\$9,605,048

Surplus and Other Funds

Common capital stock	\$3,900,000
Gross paid in and contributed surplus	2,526,285
Unassigned funds (surplus)	<u>3,546,042</u>
Surplus as regards policyholders	<u>9,972,327</u>
Total liabilities, surplus and other funds	<u>\$19,577,375</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 \$2,508,508, as detailed below:

Underwriting Income

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

Net investment income earned	\$1,881,986	
Net realized capital gains or (losses)	<u>15,797</u>	
Net investment gain (loss)		1,897,783

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		\$1,897,783
Federal and foreign income taxes incurred		<u>(610,725)</u>
Net income		<u>\$2,508,508</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$1,270,019 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			\$8,702,308
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 2,508,508		
Change in net deferred income tax	1,978		
Change in non-admitted assets		\$ 40,467	
Dividends to stockholders	<u>0</u>	<u>1,200,000</u>	
Total gains and losses	<u>\$2,510,486</u>	<u>\$1,240,467</u>	
Net increase (decrease) in surplus			<u>1,270,019</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2018			<u>\$9,972,327</u>

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

Capital paid in is \$3,900,000 consisting of 6,500 shares of \$600 par value per share common stock. Gross paid in and contributed surplus is \$2,526,285. 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. Effective January 1, 2009, 100% of the Company's insurance liabilities are ceded to Trinity.

At the examination date, the Company has taken reinsurance reserve credit for losses ceded to the Trinity of approximately \$20.2 million. The Company has additionally reduced its unearned premium reserve by approximately \$18.2 million.

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. 31848

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 Preferred 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