

REPORT OF EXAMINATION  
OF THE  
ALLIANCE UNITED INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2007

Filed May 15, 2009

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Los Angeles, California  
April 3, 2009

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**ALLIANCE UNITED INSURANCE COMPANY**

(hereinafter also referred to as the Company) at the primary location of its books and records, 9121 Oakdale Avenue, Chatsworth, California 91311. The Company's statutory home office and main administrative office is located at 2125 Knoll Drive Suite 100, Ventura, California 93003.

**SCOPE OF EXAMINATION**

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

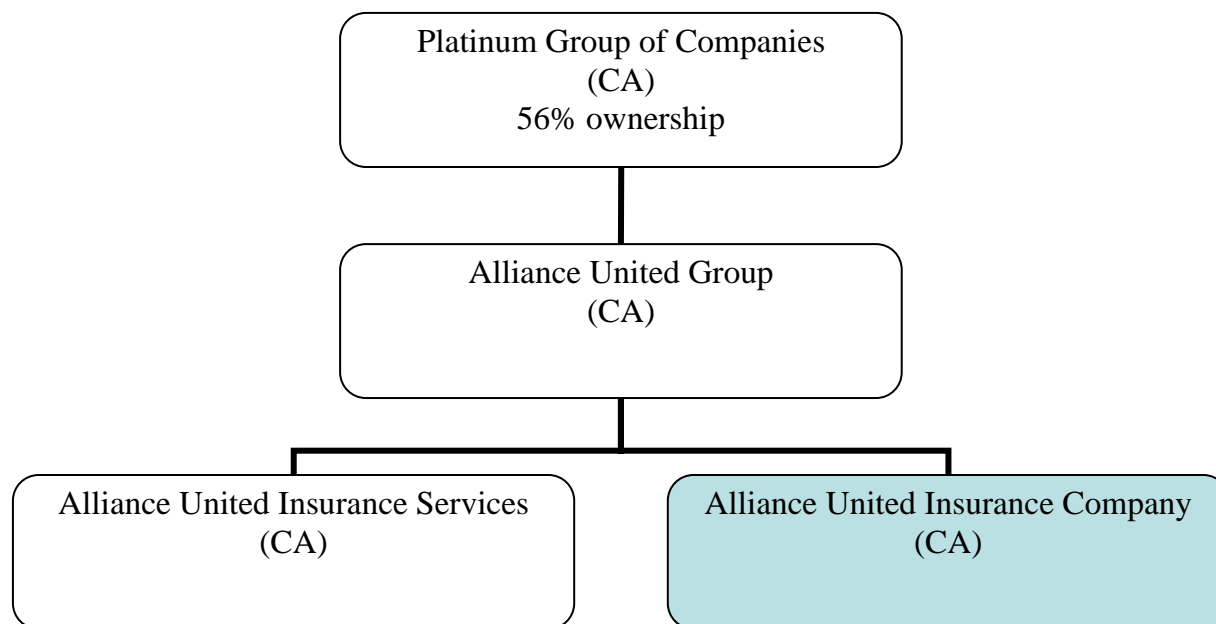
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

## COMPANY HISTORY

The Company was incorporated in California on December 17, 1997 as Millennium Insurance Company and commenced business on June 30, 1998. On January 1, 2004, Alliance United Group (AUG) purchased the Company from GuideOne Financial Group, Inc., and changed the name of the Company to its current name. On December 23, 2005, Platinum Group of Companies (PGC) and Mr. David Mandel, the ultimate controlling individual of PGC, filed for approval with the California Department of Insurance (CDI) for indirect control of the Company through a purchase of 42,932 shares, or 56%, of the authorized but unissued Class A common stock of AUG. On August 15, 2006 the CDI approved this request and concurrently entered into a Regulatory Agreement with Mr. Mandel, PGC, and the Company setting conditions for control of the Company. These conditions include, but are not limited to: maintaining a risk based capital of 300% or greater; maintaining a premium to surplus ratio of not greater than 3 to 1; no dividends can be declared by the Company during the first three years following the acquisition of control; the Company may not write any business other than automobile insurance without prior consent from the CDI in each instance; and the Company must attempt to retain the services of its senior management for the five years following the acquisition of control. Capital contributions were made by AUG in 2005, 2006 and 2007 of \$750,000, \$3.3 million, and \$2.5 million, respectively.

## MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's ultimate parent along with its subsidiaries, depicts the Company's relationship within the holding company system:



(\*) all ownership is 100% unless otherwise noted

Management of the Company is vested in a six-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jose Martin Catano West Covina, California	Owner Catano Insurance Agency
Brian Joseph Duffy Ventura, California	President and Chief Executive Officer Alliance United Insurance Company
Ted Hume St. Louis, Missouri	Former Chairman Alliance United Insurance Company
Amy Sothea Kong Ventura, California	President Low-Cost Insurance Agency - Retired
Kim Sann Kong Ventura, California	Operations Manager Low-Cost Insurance Agency

Name and Residence

Principal Business Affiliation

David Mandel  
Ventura, California

President  
Platinum Group of Companies

Principal Officer

Name

Title

Brian Joseph Duffy (\*)  
Phillip Bradley Hinkle  
Kjell Paul Austad  
Romeo Figueroa Obispo

President and Chief Executive Officer  
Vice President and Director - Claims  
Vice President and Secretary  
Treasurer and Controller

(\*) retired as President and Chief Executive Officer on January 4, 2009, and was replaced by David Mandel

Management Agreements

Services Agreement: The Company is a party to a Services Agreement with its affiliate, Alliance United Insurance Services (AUIS). AUIS provides administrative, and management services as well as office space to the Company. The agreement has been in force since January 1, 2004. The Company reimburses AUIS for the actual cost of these services. For 2005, 2006, and 2007, the Company paid \$443,015, \$489,937, and \$570,953, respectively, in fees to AUIS under the terms of this agreement. The California Department of Insurance (CDI) approved this agreement on February 12, 2004. On March 31, 2008, the Company amended this agreement to exclude the payroll services provided by AUIS. CDI approval is pending.

Tax Sharing Agreement: The Company and its affiliates are part of a consolidated federal income tax agreement with its parent, Alliance United Group (AUG). Allocation of taxes is based upon separate return calculations with inter-company tax balances normally settled in the quarter subsequent to the filing of the consolidated return. The CDI approved this agreement on January 29, 2004. It was noted that the tax sharing agreement does not include the names of all the

participants. It is recommended that the agreement be amended to include the names of all participants.

Agency Agreement: Effective January 1, 2004 the Company entered into an agency agreement with AUIS. AUIS is responsible for: billing and collection of premiums; establishment of a trust fund for the premiums held by a FDIC insured bank; issuing a statement to the Company which details all policies issued and funds collected by AUIS during each month. Premium settlements are made within 30 days after each month of collection. The premiums received from AUIS for 2005, 2006, and 2007 were \$6,050,964, \$13,604,643, and \$34,826,146, respectively. The CDI approved this agreement on February 12, 2004.

#### CORPORATE RECORDS

The Company failed to obtain conflict of interest statements from its officers, directors, and key employees in 2007. It is recommended that the Company obtain conflict of interest statements from its officers, directors, and key employees on an annual basis.

The Company failed to provide the examiner with all the minutes of the board of directors' meetings for the period under examination. It is recommended that the Company prepare detailed minutes for each meeting of its board of directors.

#### TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact multiple lines of property and casualty insurance in California.

In 2007, the Company wrote \$48.5 million of direct premiums in California. Of the direct premiums written, 73.5% was non-standard private passenger auto liability and 26.5% was physical damage.

The Company's business is written through approximately 670 brokerage firms, and through its affiliate, Alliance United Insurance Services.

## REINSURANCE

### Assumed

The Company does not assume any reinsurance.

### Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2007:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Excess of Loss	Knight Insurance Company, Ltd. (unauthorized)	Bodily Injury \$30,000 per occurrence	Bodily Injury \$300,000 per occurrence
		Physical Damage \$10,000 per occurrence	Physical Damage \$50,000 per occurrence
Quota Share	Universal Casualty Company (50%) Moters Insurance Corporation (50%)	40% per occurrence	60% per occurrence up to \$30,000

As of December 31, 2007, reinsurance recoverable for all ceded reinsurance totaled \$11.1 million, or 92.1% of surplus as regards policyholders.

Subsequent to the examination date, the Company commuted the Universal Casualty Company quota share contract, effective October 1, 2008, and reduced Moters Insurance Corporation's participation in the quota share contract from 30% to 10% effective April 1, 2008.

## ACCOUNTS AND RECORDS

This examination experienced significant difficulties obtaining supporting documentation for certain information reported by the Company in its filed Annual Statements. This included routine requests for confirmation of information, and detailed supporting documentation. It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

### Information System Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of the review, it was noted that the Company did not have a written disaster recovery and business continuity plan. This weakness was presented to the Company. The Company should evaluate this recommendation and prepare a written disaster recovery plan for its information systems.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2004 through December 31, 2007

Statement of Financial Condition  
as of December 31, 2007

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 17,986,473	\$	\$ 17,986,473	
Stocks:				
Common stocks	79,000		79,000	
Cash and short-term investments	2,012,943		2,012,943	
Aggregate write-in for invested assets	11,031	11,031		
Premiums and considerations:				
Premiums, agents' balances and installments booked but deferred and not yet due	5,554,655		5,554,655	
Amounts recoverable from reinsurers	2,036,849		2,036,849	
Net deferred tax asset	456,972	456,972		
Interest, dividends, and real estate income due and accrued	143,017		143,017	
Receivable from parent, subsidiaries and affiliates	<u>2,964,170</u>	<u>                    </u>	<u>2,964,170</u>	
Total assets	<u>\$ 31,245,109</u>	<u>\$ 468,003</u>	<u>\$ 30,777,106</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 6,468,339	(1)
Loss adjustment expenses			4,202,000	(1)
Other expenses			586,435	
Unearned premiums			3,335,079	
Taxes , licenses and fees			831,985	
Ceded reinsurance premiums payable			<u>3,268,367</u>	
Total liabilities			18,692,205	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		13,200,000		
Unassigned funds (surplus)		<u>(3,715,099)</u>		
Surplus as regards policyholders			<u>12,084,901</u>	
Total liabilities, surplus and other funds			<u>\$ 30,777,106</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2007

Statement of Income

Underwriting Income

Premiums earned		\$ 20,433,360
Deductions:		
Losses incurred	\$ 12,359,203	
Loss expense incurred	8,120,840	
Other underwriting expenses incurred	<u>(194,329)</u>	
Total underwriting deductions		<u>20,285,714</u>
Net underwriting gain		147,646

Investment Income

Net investment income earned	\$ 837,229	
Net realized capital gains	<u>9,342</u>	
Net investment gain		<u>846,571</u>
Net income		<u>\$ 994,217</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$ 8,623,949
Net income	\$ 994,217	
Net unrealized capital losses	(22,238)	
Change in net deferred income tax	29,646	
Change in nonadmitted assets	(40,673)	
Paid-in surplus	<u>2,500,000</u>	
Change in surplus as regards policyholders		<u>3,460,952</u>
Surplus as regards policyholders, December 31, 2007		<u>\$ 12,084,901</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2004 through December 31, 2007

Surplus as regards policyholders, December 31, 2004, per Examination			\$ 6,618,054
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ 1,049,888	
Net unrealized capital losses		22,238	
Change in net deferred income tax	246,409		
Change in non-admitted assets		257,436	
Surplus adjustments: Paid-in	<u>6,550,000</u>	_____	
Totals	<u>\$ 6,796,409</u>	<u>\$ 1,329,562</u>	
Net increase in surplus as regards policyholders for the examination			<u>5,466,847</u>
Surplus as regards policyholders, December 31, 2007, per Examination			<u>\$ 12,084,901</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2007 were found to be reasonably stated and have been accepted for purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Management and Control - Management Agreements - Tax Sharing Agreement (Page 4): It is recommended that the tax sharing agreement be amended to include the current names of all participants.

Corporate Records - (Page 5): It is recommended that the Company obtain conflict of interest statements from its officers, directors, and key employees on an annual basis. It is also recommended that the Company prepare detailed board of directors' minutes during each of its meetings.

Accounts and Records - (Page 7): It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

Accounts and Records - Information System Controls (Page 7): The Company should prepare a written disaster recovery plan for its information systems.

### Previous Report of Examination

Management and Control - Management Agreements (Page 5): It was recommended that the Company execute an agreement with a qualified custodian and file the proposed agreement with the California Department of Insurance in advance as required by California Insurance Code Section (1104.9(c)). The Company has complied with the recommendation. It was also recommended that the Company amend its management agreements to reflect the name change of the Company from Millennium Insurance Company to Alliance United Insurance Company. The Company complied with the recommendation.

Comments on Financial Statement Items - Cash and Short-term Investment (Page 11): It was recommended that the Company establish a procedure to file its unclaimed property with the California State Controller's Office. The Company has complied with the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Gint Prismantas, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California