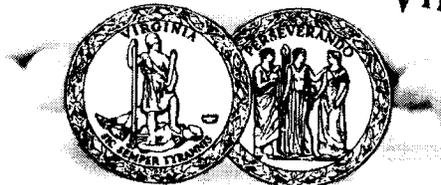


EXAMINATION REPORT
of
MERCHANTS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION
Richmond, Virginia
as of
December 31, 2012

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Merchants of Virginia Group Self-Insurance Association as of December 31, 2012, 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 5th day of February, 2014

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham". The signature is written in black ink and is positioned above a horizontal line.

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 8, 2013

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

**MERCHANTS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION**

Richmond, Virginia

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

DESCRIPTION

The Association is a group self-insurance association licensed to provide workers' compensation coverage and employers' liability coverage to its members pursuant to Section 65.2-802 of the Code of Virginia and 14 VAC 5-370-10 et seq. (Rules Governing Group Self-Insurers of Liability under the Virginia Workers' Compensation Act) promulgated by the State Corporation Commission (the "Commission").

The Association was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

The Association was licensed by the Bureau effective May 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The by-laws provide for no less than three nor more than nine Board members, three-fourths of whom shall be officers of members in good standing with the Association. Board members serve until their successors are elected.

The Board and officers were as follows at December 31, 2012:

Representative

Member

Melvin H. Belcher	Progressive Manufacturing Corp. Chester, Virginia
William R. Brewer, Jr.	Dink, Inc. Virginia Beach, Virginia
James L. Harrell, III	Harrell & Harrell, Inc. Norfolk, Virginia
Ronald K. Harrell	Ravensworth Sunoco Springfield, Virginia
Charles L. Reed, III	Woodfin Oil Company Mechanicsville, Virginia
Rachael S. Schultz	Northern Neck Chevrolet, Inc. Montross, Virginia
David M. Traub	DMT, Inc. Midlothian, Virginia

Officers

Charles L. Reed, III	Chairman
James L. Harrell, III	Vice-Chairman
David M. Traub	Secretary
Ronald K. Harrell	Treasurer

TERRITORY AND PLAN OF OPERATION

The operation of the Association is confined to Virginia where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association is available to employers engaged in a similar type of business, upon the approval of the Board and the Commission.

All members are required to enter into an indemnity agreement in which each member jointly and severally agrees to assume and discharge members' employers' liabilities and any and all members' liabilities covered under the Virginia Workers' Compensation Act. No formal insurance policy is issued to the members.

The Association has a contractual agreement with an administrator who shall administer and manage the affairs of the Association in accordance with the policies established and adopted by the Board. Claims are processed and paid by a service agent pursuant to a contractual agreement with the Association. The Association's operations are conducted on a fiscal year ending April 30.

ADMINISTRATIVE AGREEMENT

Effective May 1, 1996, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of 12 months and the agreement remains in effect thereafter, subject to termination by either party by written notice at least 90 days in advance of the effective date of termination.

According to this agreement, SIS shall administer the financial affairs of the Association as established and adopted by the Board, maintain necessary records of accounts, advise the Board on policy matters, contract for claims handling and with advisors and consultants, pay all items of expense to the extent funds are available, direct the solicitation and enrollment of new members, file necessary reports, and conduct other managerial duties.

As compensation for its services, SIS shall receive 7% of all members' contributions calculated under the provisions of 14 VAC 5-370-110, without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$437,520 in fees relating to this agreement in calendar year 2012. In addition, SIS retains 100% of the commission received for the placement of excess insurance coverage.

CLAIMS CONSULTING SERVICE AGREEMENT

Effective May 1, 1994, the Association entered into a claims consulting service agreement with SIS. The original term of the agreement was for a period of 12 months and the agreement remains in effect thereafter, subject to termination by either party upon 90 days advance written notice. According to the agreement, SIS shall provide claims consulting services including the review of monthly loss reports, approval of all medical and compensation payments over \$2,000, monthly review of all open claim files, evaluation of members' claim experience and assistance to the service agent in settlement of claims.

As compensation, the Association shall pay SIS $\frac{1}{2}$ of 1% of all members' contributions calculated under the provisions of 14 VAC 5-370-110, without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$31,251 in fees relating to this agreement in calendar year 2012.

CLAIMS SERVICE AGREEMENT

Effective May 1, 1998, the Association entered into a claims service agreement with Trigon Administrators, Inc. ("Trigon") currently known as Sedgwick CMS ("Sedgwick"). Sedgwick serves as the Association's claims service agent pursuant to the same claims service agreement originally entered into with Trigon. The original term of the agreement was for a one-year period and the agreement remains in effect thereafter, subject to termination by either party by written notice 60 days in advance of the effective date of termination.

Pursuant to the terms of the agreement, Sedgwick shall provide full claims handling and adjusting for all claims incurred during the period of the agreement until their conclusion, unless otherwise transferred, claims counseling, loss control consulting, monthly reports, preparation for all scheduled hearings before regulatory bodies and other claims related duties. As compensation for its services, Sedgwick shall receive 5.6% of the Association's manual premiums. Additionally, Sedgwick will be compensated 25% of the savings generated by inpatient bills, the inpatient utilization review process and any reductions from the application of any fee schedules and negotiations generated from the cost containment program. The Association incurred \$350,016 in fees relating to this agreement in calendar year 2012.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a plan year may be declared refundable by the Board. Payments of this surplus in the form of dividends, however, may not be made until the Association has received approval from the Bureau. During the examination period, the Bureau approved the following dividends:

<u>Fiscal Year</u>	<u>Approval Dates</u>		
	<u>April 2, 2010</u>	<u>April 15, 2011</u>	<u>March 21, 2012</u>
1988/1989	\$83,902	\$0	\$0
1993/1994	0	0	211,617
1995/1996	75,000	41,867	95,063
1996/1997	5,818	0	82,197
1997/1998	4,809	0	100,800
1998/1999	0	30,650	83,458
1999/2000	11,131	13,556	93,105
2000/2001	0	80,152	88,244
2001/2002	0	0	117,471
2002/2003	50,000	0	144,593
2003/2004	50,000	98,791	10,000
2004/2005	100,000	200,000	20,000
2005/2006	200,000	250,000	20,000
2006/2007	300,000	100,000	200,000
2007/2008	300,000	500,000	200,000
2008/2009	200,000	300,000	200,000
2009/2010	0	600,000	20,000
2010/2011	<u>0</u>	<u>0</u>	<u>500,000</u>
Total	<u>\$1,380,660</u>	<u>\$2,215,016</u>	<u>\$2,186,548</u>

FIDELITY BOND COVERAGE

At December 31, 2012, the Association was listed as a named insured on a fidelity bond with a \$250,000 limit of liability, subject to a \$2,500 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2012, the Association had a United States Treasury Note with a par value of \$250,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific excess and aggregate excess insurance agreements in force at December 31, 2012, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$750,000 for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	95% of normal premium, subject to a minimum retention of \$5,316,393	\$5,000,000

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the principles of the risk-based examination approach contained in the NAIC Financial Condition Examiners Handbook. Analytical review procedures were applied to non-material items.

In addition, the following matters were reviewed, several of which are discussed separately under their respective captions in the report:

History
Management and Control
Territory and Plan of Operation
Administrative Agreement
Claims Consulting Service Agreement
Claims Service Agreement
Dividends to Members
Fidelity Bond Coverage
Special Reserves and Deposits
Excess Insurance Coverage
Financial Statements

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2012, a statement of income for the year ended December 31, 2012, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

BALANCE SHEET
DECEMBER 31, 2012

ASSETS

Bonds, long term	\$13,419,382
Other invested assets	306,421
Cash on deposit	1,076,706
Premiums receivable	180,848
Interest due and accrued	74,003
Prepaid excess insurance premiums	80,593
Prepaid administrative fees	61,321
Prepaid service agent's fees	45,786
	<hr/>
Total assets	<u><u>\$15,245,060</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$9,156,845
Loss adjustment expenses unpaid	229,708
Contingency reserve	965,560
Unearned premiums	1,329,431
Premium refunds payable	154,557
Administrative fees payable	22,658
Service agent's fees payable	16,918
Taxes, licenses and fees payable	192,778
Other expenses payable	2,954
Dividends payable	3,092,723
Payroll audit fees payable	26,000
Professional fees payable	17,400
Investment fees payable	4,500
	<hr/>
Total liabilities	<u><u>\$15,212,032</u></u>
Restricted members' equity	\$255,303
Unrestricted members' equity	(222,275)
	<hr/>
Total liabilities and members' equity	<u><u>\$15,245,060</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2012

UNDERWRITING INCOME

Premiums earned	<u>\$5,139,375</u>
Deductions:	
Losses incurred	\$2,752,557
Loss expenses incurred	166,307
Other underwriting expenses incurred	1,113,715
Contingency reserve	<u>(352,623)</u>
Total underwriting deductions	<u>\$3,679,956</u>
Net underwriting gain	<u>\$1,459,419</u>

INVESTMENT INCOME

Net investment income earned	\$269,984
Net realized capital losses	<u>(54,918)</u>
Net investment gain	<u>\$215,066</u>
Net income before federal income taxes	\$1,674,485
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$1,674,485</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Members' equity, previous year before undistributed dividends	* \$3,712,554	\$3,391,045	\$3,592,195
Adjustment for previous examination changes	(23,355)		
Net income	898,281	2,261,185	1,674,485
Net unrealized capital gains or (losses)	(16,307)	(150,978)	(63,915)
Dividends paid to members	<u>(1,180,128)</u>	<u>(1,909,057)</u>	<u>(2,077,014)</u>
Restricted and unrestricted members' equity, end of year	\$3,391,045	\$3,592,195	\$3,125,751
Less: Restricted members' equity, end of year	<u>262,793</u>	<u>261,318</u>	<u>255,303</u>
Unrestricted members equity, end of year before undistributed dividends	\$3,128,252	\$3,330,877	\$2,870,448
Less: Dividends declared but unpaid	<u>2,682,696</u>	<u>2,983,189</u>	<u>3,092,723</u>
Unrestricted members' equity, end of year	<u><u>\$445,556</u></u>	<u><u>\$347,688</u></u>	<u><u>(\$222,275)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2012

	All Other Fiscal Years Preceding 1982-2009	Third Fiscal Year Preceding 2009/2010	Second Fiscal Year Preceding 2010/2011	First Fiscal Year Preceding 2011/2012	Partial Current Fiscal Year 5/1/12-12/31/12	Total Inception to Date (1982-2012)
Income Received						
Premiums written	\$82,630,335	\$4,366,708	\$4,974,654	\$4,927,618	\$4,952,019	\$101,851,334
Less: Excess insurance	7,422,629	252,394	287,536	258,316	326,961	8,547,836
Net premiums written	\$75,207,706	\$4,114,314	\$4,687,118	\$4,669,302	\$4,625,058	\$93,303,498
Investment income	9,566,318	178,476	152,989	38,077	241,578	10,177,438
Allocation between years	92,873	18,207	47,021	47,712	(205,813)	0
Other	222,659	0	0	0	31,787	254,446
Total income collected	\$85,089,556	\$4,310,997	\$4,887,128	\$4,755,091	\$4,692,610	\$103,735,382
Less: Expenses Paid						
Losses paid	\$39,831,752	\$1,546,202	\$961,217	\$1,111,508	\$268,908	\$43,719,587
Allocated loss adjustment expenses paid	1,692,728	330,159	207,930	235,085	54,217	2,520,119
Administrative fees	6,476,463	367,106	426,045	392,900	364,027	8,026,541
Service agent's fees	5,143,611	274,106	318,114	293,365	301,324	6,330,520
Taxes, licenses, and fees	1,318,661	179,113	172,879	219,152	0	1,889,805
Federal income tax	1,762,855	93,424	0	109,548	0	1,965,827
Other expenses	1,650,763	53,111	53,826	64,649	13,129	1,835,478
Total expenses	\$57,876,833	\$2,843,221	\$2,140,011	\$2,426,207	\$1,001,605	\$66,287,877
Net cash income	\$27,212,723	\$1,467,776	\$2,747,117	\$2,328,884	\$3,691,005	\$37,447,505
Add: Receivables						
Premium receivable	0	0	0	7,968	172,880	180,848
Interest due and accrued	26,194	5,854	15,118	15,340	11,497	74,003
Other	0	0	0	0	187,700	187,700
Total	\$26,194	\$5,854	\$15,118	\$23,308	\$372,077	\$442,551
Deduct: Liabilities						
Losses unpaid	\$1,097,952	\$772,384	\$1,319,377	\$2,186,491	\$3,780,641	\$9,156,845
Loss adjustment expenses	17,076	22,372	18,910	70,281	101,069	229,708
Contingency reserve	428,574	131,001	149,240	148,067	108,678	965,560
Unearned premiums	0	0	0	0	1,329,431	1,329,431
Premium refunds payable	0	0	0	0	154,557	154,557
Administrative fees payable	0	0	0	22,658	0	22,658
Service agent's fees payable	0	0	0	16,918	0	16,918
Taxes, licenses and fees payable	0	0	0	0	192,778	192,778
Other expenses payable	0	0	0	0	50,854	50,854
Total	\$1,543,602	\$925,757	\$1,487,527	\$2,444,415	\$5,718,008	\$12,119,309

Members' Account By Fiscal Year Inception to Date December 31, 2012

	<u>All Other Fiscal Years Preceding 1982-2009</u>	<u>Third Fiscal Year Preceding 2009/2010</u>	<u>Second Fiscal Year Preceding 2010/2011</u>	<u>First Fiscal Year Preceding 2011/2012</u>	<u>Partial Current Fiscal Year 5/1/12-12/31/12</u>	<u>Total Inception to Date (1982-2012)</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$25,695,315	\$547,873	\$1,274,708	(\$92,223)	(\$1,654,926)	\$25,770,747
Less: Dividends paid inception to date by fiscal year	21,579,820	577,257	487,919	0	0	22,644,996
Less: Restricted Members' Equity by fiscal year	<u>51,061</u>	<u>51,061</u>	<u>51,061</u>	<u>51,061</u>	<u>51,059</u>	<u>255,303</u>
Unrestricted Members' Equity undistributed by fiscal year	\$4,064,434	(\$80,445)	\$735,728	(\$143,284)	(\$1,705,985)	\$2,870,448
Less: Dividends declared but unpaid	<u>3,037,899</u>	<u>42,743</u>	<u>12,081</u>	<u>0</u>	<u>0</u>	<u>3,092,723</u>
Unrestricted Members' Equity 12/31/12	<u>\$1,026,535 *</u>	<u>(\$123,188)</u>	<u>\$723,647</u>	<u>(\$143,284)</u>	<u>(\$1,705,985)</u>	<u>(\$222,275)</u>

*Although the cumulative unrestricted members' equity for the fiscal years 1982-2009 at December 31, 2012 was \$1,026,535, the 2006/2007 fiscal year had a members' equity deficit of \$17,890.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2012

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$7,968	\$180,848	\$172,880
Prepaid excess insurance premiums	108,987	80,593	(28,394)
Prepaid administrative fees	49,809	61,321	11,512
Prepaid service agent's fees	66,708	45,786	(20,922)
<u>Liabilities:</u>			
Losses unpaid	\$9,070,306	\$9,156,845	(\$86,539)
Loss adjustment expenses unpaid	218,893	229,708	(10,815)
Contingency reserve	963,776	965,560	(1,784)
Unearned premiums	1,388,956	1,329,431	59,525
Premium refunds payable	0	154,557	(154,557)
Taxes, licenses and fees payable	225,000	192,778	32,222
Other expenses payable	0	2,954	<u>(2,954)</u>
Examiners' changes in members' equity			<u><u>(\$29,826)</u></u>
Restricted and unrestricted members' equity per Association			\$62,854
Restricted and unrestricted members' equity per Examiners			<u>33,028</u>
Decrease in restricted and unrestricted members' equity			<u><u>(\$29,826)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflected members' equity deficits for the 2006/2007, 2009/2010, 2011/2012 fiscal years and the 2012/2013 partial current fiscal year of \$17,890, \$123,188, \$143,284 and \$1,705,985, respectively. The Board is reminded of its responsibility to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

2. Losses unpaid \$9,156,845

The above liability is \$86,539 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' increase came exclusively from the 2006/2007 fiscal year and results from a development of losses paid and reserve changes occurring during the period January 1, 2013 through September 30, 2013 on claims incurred December 31, 2012 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in future filings with the Bureau.

3. Loss adjustment expenses unpaid \$229,708

The above liability is \$10,815 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' increase came exclusively from the 2006/2007 fiscal year and results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2013 through September 30, 2013 on claims incurred December 31, 2012 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in future filings with the Bureau.

4. Prepaid excess insurance premiums \$80,593

The above asset is \$28,394 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount reflects the unused portion of the Association's excess insurance premiums paid in 2012, but applicable to the policy period ending April 30, 2013. Additionally, the Examiners' amount was adjusted for additional excess insurance premiums due for the 2011/2012 fiscal year. The decrease is attributed to the Examiner's review of the 2011/2012 fiscal year excess insurance

premium billing statement which determined the required premium to be higher than the minimum policy premium paid by the Association.

5. Taxes, licenses and fees payable \$192,778

The above liability is \$32,222 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2013 for taxes pertaining to 2012.

6. Other expenses payable \$2,954

The above liability has been established by the Examiners. The Examiner's amount was based on a review of invoices paid in 2013 for other expenses incurred in 2012.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2012/2013 fiscal year payrolls which were not fully completed until after the Association's 2012 Annual Statement filing to the Bureau.

7. Premiums receivable \$180,848
Premium refunds payable \$154,557

The above amounts have been increased \$172,880 and \$154,557, respectively. The Examiners' amounts are based on subsequent 2012/2013 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid prorated for the period May 1, 2012 through December 31, 2012.

8. Prepaid administrative fees \$61,321

The above asset is \$11,512 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2012, less the amount owed at December 31, 2012 based on the Examiners' analysis of subsequent 2012/2013 member payroll audits

9. Prepaid service agent's fees \$45,786

The above asset is \$20,922 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount reflects service agent's fees paid at December 31, 2012, less the amount owed at December 31, 2012 based on the Examiners' analysis of subsequent 2012/2013 member payroll audits.

10. Contingency reserve\$965,560

The above liability is \$1,784 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2012/2013 member payroll audits, which is the basis for the calculation of the contingency reserve.

11. Unearned premiums\$1,329,431

The above liability is \$59,525 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2012, less the amount earned at December 31, 2012 based on subsequent 2012/2013 member payroll audits.

SUBSEQUENT EVENTS

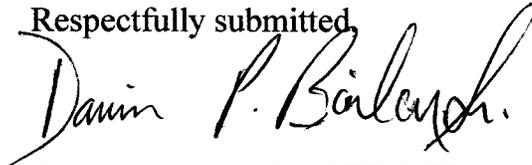
1. On March 12, 2013, the Bureau approved dividends for the Association totaling \$1,512,255.
2. Effective May 1, 2013, the Association's specific retention under its excess insurance coverage increased by \$250,000 to \$1,000,000 for each accident and each employee for disease.

CONCLUSION

The courteous cooperation extended by the Association's administrator and service agent during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Chris Collins, CFE and Milton Parker, Jr. participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrin P. Bailey Sr." The signature is written in a cursive style with a large, prominent initial 'D'.

Darrin P. Bailey Sr., CFE, MHP, AIAF
Senior Insurance Examiner

MERCHANTS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

STATE CORPORATION COMMISSION
BUREAU OF INSURANCE
14 JAN 23 AM 7:55

January 21, 2014

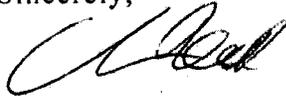
Mr. David H. Smith, CFE, CPA, CPCU
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Dear Mr. Smith:

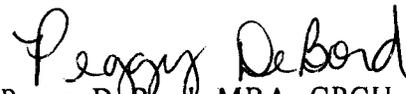
Enclosed are the responses to your recommendations for corrective action for Merchants of Virginia Group Self Insurance Association during the examination period of January 1, 2010 to December 31, 2012.

Please let me know if you have any questions concerning our responses.

Sincerely,



Charles Reed
Chairman
Members' Supervisory Board
Merchants of Virginia
Group Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
Merchants of Virginia
Group Self Insurance Association

Enclosures

Merchants of Virginia Group Self Insurance Association

Responses to Recommendations for Corrective Action

Management and Control

1. The Association is aware of and will make every effort to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

2. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently, and again has reminded our service company to do so.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently, and again has reminded our service company to do so.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
5. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
6. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
7. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.

8. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
9. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
10. The Association establishes a 3% contingency reserve fund each year. We agree with the adjustment since it was prepared with the benefit of subsequent audit information.
11. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.