

Examination Report
on
VIRGINIA PROPERTY INSURANCE ASSOCIATION
as of
September 30, 2014

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 Virginia Property Insurance Association as of September 30, 2014, 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 11th day of May, 2015

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
February 6, 2015

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2-2710 of the Code of Virginia, an examination of the records and affairs of the

VIRGINIA PROPERTY INSURANCE ASSOCIATION

Glen Allen, Virginia

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

DESCRIPTION

The Association is a direct insurance association operating pursuant to Chapter 27 of Title 38.2 of the Code of Virginia. The Association was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of September 30, 2011. This examination covers the three-year period from October 1, 2011, through September 30, 2014.

HISTORY

The Association was established by order of the State Corporation Commission (Commission) on July 26, 1968, pursuant to the provisions of Chapter 559 of the 1968 Acts of the General Assembly as amended. It was organized as the Virginia Insurance Placement Facility (Facility), an unincorporated association, for the purpose of administering a program for the equitable distribution and placement of basic property insurance in compliance with the Urban Property Protection and Reinsurance Act of 1968, 12 U.S.C. 1749bbb - 1749bbb - 21. Effective October 1, 1973, the Commission issued an order approving a reorganization of the Facility in which the constitution, bylaws, and plan of operation were revised to change the name to its present form and to provide for the centralized operation of a direct insurance association. The Commission

approved revisions of the constitution and bylaws effective November 21, 1980, the Plan of Operation effective July 1, 1982, and the Manual of Operational Procedures (Manual) effective July 1, 1980. The Commission approved a new Plan of Operation for the Association effective September 1, 2005, and a revised Manual effective November 1, 2012.

MANAGEMENT AND CONTROL

The Plan of Operation provides that the Association shall be governed by a board of fifteen directors composed of eleven Members, two licensed property and casualty agents, and two representatives of the public. The board shall have all the powers vested in the Association under Chapter 27 of Title 38.2 of the Code of Virginia. A majority of the directors shall constitute a quorum. All insurers licensed to write basic property insurance on a direct basis in Virginia, unless specifically exempted by law, shall be Members of the Association. These members shall meet annually to elect their eleven representatives to the board of directors. The agents and the public members are appointed by the Commissioner of Insurance.

The officers of the Association shall be a chairman, a vice chairman, a secretary, and such other officers as may be deemed necessary. The board of directors shall appoint a manager of the Association who will also serve as secretary to the board. At September 30, 2014, the members of the board of directors and officers were as follows:

Board of Directors

Member

State Farm Fire and Casualty
Travelers Company, Inc.
Berkley Corp. Mid Atlantic Group, LLC
Allstate Insurance Company
Nationwide Mutual Insurance Company
Alfa Alliance Insurance Corporation
Farmers Insurance Group, Inc
Virginia Farm Bureau Mutual Insurance Company
USAA
Liberty Mutual Insurance Company
Erie Insurance Group
Agent
Agent
Public Representative
Public Representative

Representative

David Bonenfant
Kevin Curry
Jeff E. Bouton
Matthew Stegle
John-Paul Purssord
Ken Gee
Bill Tibbens
Sam Rooks
Corise Morrison
William Mangan
Mark Banks
Douglas S. Favre
W. Eugene Hayes
Larry Halterman
James Stacia

Officers

Sam Rooks
 Jeff E. Bouton
 Susan Tinsley

Chairman
 Vice Chairman
 Secretary and Manager of the
 Association

FIDELITY BOND AND OTHER INSURANCE

At September 30, 2014, the Association had \$1,000,000 of fidelity coverage in force, with a deductible of \$25,000. The Association also had the following insurance coverages in effect at September 30, 2014: cyber liability, businessowners, commercial protector, commercial auto, commercial umbrella liability, workers compensation, and directors and officers coverage.

OFFICERS' AND EMPLOYEES' WELFARE AND PENSION PLAN

The Association pays for the cost of the employees' pension plan, life insurance and disability income coverage. In addition, the Association pays 80% of the costs of the dental, vision, and medical plans for the employees and their dependents. The Association also has an employee savings plan to which the Association contributes an additional amount equal to 100% of the employees' basic contributions, up to a maximum of 6% of each employee's salary.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to provide for the centralized operation of a direct insurance association in conformity with Chapter 27 of Title 38.2 of the Code of Virginia. The Association issues policies on behalf of its Members who bear the direct risks on a pro rata basis. The Board of Directors approves the assessment of Members for additional funds as they are needed and the distribution of excess funds as they are available.

The Association's Manual changed the area of operations from specific areas to statewide operations. This Manual has been revised several times since its origination. The latest revision was November, 2012. Under its operation as a residual market facility:

- The Association is authorized to issue policies or certificates of insurance on risks in such form that each Member of the Association shall be a direct insurer in such proportion as its premiums written bear to the total premiums written by all Members. In connection with policies issued by the Association..., the Association shall act on behalf of its Members in all necessary matters, including but not limited to collection of premiums, issuance of cancellations and payment of commissions, losses, judgments, and expenses.
- Members of the Association have authorized the Manager of the Association to act as Attorney-in-Fact for all Members and to execute policies on behalf of the Members. Any person having an insurable interest in qualified property, i.e., property used for other than manufacturing purposes, may apply directly or through a licensed agent for Basic Property Insurance. Protection is afforded against direct loss to real and tangible personal property as provided in the Standard Fire Policy, the Extended Coverage Endorsement, and Vandalism and Malicious Mischief Insurance. In addition to Basic Property Insurance, the Association will offer broader property insurance and/or liability insurance to certain residential properties that meet a more stringent underwriting standard. The Association also offers liability protection by endorsement to a dwelling policy. No vandalism coverage will be provided on vacant or unoccupied buildings, or buildings in the course of renovation or construction. An inspection of the property may be made and, depending upon the report, a determination is made whether or not the risk is acceptable. Coverage may be declined if the property is ineligible or it fails to meet reasonable underwriting standards.
- The premium charged, subject to a minimum, is the base premium as developed by the American Association of Insurance Services and increased by the appropriate policy modifier. Also, charges or surcharges based upon condition, may be imposed for certain deficiencies in the property. If coverage is declined, a notice is sent to the applicant and agent, if any, stating the reasons therefore, including a statement of appeal procedure available to the applicant. If the conditions for which the risk was declined are corrected, a new application may be submitted, and upon receipt of a new inspection report, the risk will be reconsidered.
- The maximum limits of liability for property coverage written for one location is \$500,000 on habitational property and \$1,000,000 on commercial property. The word "location" means all interests in real and personal property consisting of and contained in a single building or consisting of and contained in contiguous buildings. Personal liability insurance, provided by endorsement to a dwelling policy is limited to \$100,000. Losses occurring under the Association's policies must be reported directly to its office where all claims are generally assigned to recognized independent

adjusting firms. The use of staff adjusters of Member insurance companies is not permitted.

GROWTH OF THE ASSOCIATION

The following data, obtained from the Association's records and examination reports, indicates the growth of the Association for the ten-year period ending September 30, 2014:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Members' Equity (Deficit)</u>
2005	\$20,645,127	\$13,689,731	\$6,955,396
2006	25,910,314	14,596,158	11,314,156
2007	29,147,396	14,309,025	14,838,371
2008	30,829,907	13,841,504	16,988,403
2009	20,414,838	13,290,143	7,124,695
2010	20,063,395	13,551,890	6,511,505
2011	18,030,201	14,337,731	3,692,470
2012	22,140,748	14,632,690	7,508,058
2013	24,864,443	15,914,741	8,949,702
2014	28,362,460	16,447,893	11,914,567

<u>Year</u>	<u>Premiums Earned</u>	<u>Incurred Losses</u>	<u>Loss Ratio</u>	<u>Net Income Or (Loss)</u>
2005	\$16,426,601	\$6,300,081	38.4%	\$5,096,031
2006	16,346,293	7,217,344	44.2%	4,542,904
2007	15,650,511	7,909,920	50.5%	3,535,500
2008	14,784,662	8,069,587	54.6%	2,088,042
2009	14,188,355	10,219,814	72.0%	(1,263,991)
2010	13,989,052	8,820,434	63.1%	(680,712)
2011	14,442,580	11,027,484	76.4%	(2,750,858)
2012	14,067,568	7,013,173	49.9%	1,250,253
2013	16,824,489	9,679,744	57.5%	780,231
2014	18,856,513	9,924,574	52.6%	2,690,525

RATIO ANALYSIS OF EXPENSES TO PREMIUMS
FOR THE THREE-YEAR EXAMINATION PERIOD

	<u>Fiscal Years</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net premiums written	\$15,007,693	\$18,308,940	\$19,453,751
Losses paid	\$7,325,408	\$9,800,165	\$9,897,351
Ratio of losses paid to net premiums written	48.8%	53.5%	50.9%
Loss expenses paid	\$1,783,808	\$1,347,499	\$1,313,410
Ratio of loss expenses paid to net premiums written	11.9%	7.4%	6.8%
General operating expenses	\$2,187,417	\$2,225,492	\$2,187,049
Ratio of general expenses to net premiums written	14.6%	12.2%	11.2%
Commission expenses	\$1,618,452	\$1,960,672	\$2,079,695
Ratio of commission expenses to net premiums written	10.8%	10.7%	10.7%

The above amounts were taken from the Association's financial reports to Member companies for each respective fiscal year ending September 30.

REINSURANCE

For large or hazardous risks, the Association utilizes facultative excess of loss reinsurance through General Reinsurance Corporation.

The Association also utilizes a property catastrophe excess of loss reinsurance agreement. This agreement provides coverage for ultimate net losses of \$31,000,000 in excess of the Association's retention of \$3,000,000.

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 October 1, 2011 through September 30, 2014. Assets were verified and liabilities were established at September 30, 2014. A review of income and disbursements for the period was made to the extent deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook allows flexibility in the conduct of the examination based upon the nature and size of the entity being examined. This flexibility allows the examiners the ability to structure the examination in the manner best suited for each entity.

For this examination, all accounts and activities of the Association were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association as of September 30, 2014, a statement of operations for the fiscal year ending September 30, 2014, a statement of Members' equity for the period under review, a statement of cash flow for the fiscal year ending September 30, 2014, and a statement of Members' account by policy year as of September 30, 2014. The statements made a part of this report and the figures included therein are generally in the form of the financial report filed with the Commission.

ASSETS

Cash and cash equivalents	\$4,791,216
Certificates of deposit	23,359,222
Premiums receivable	<u>212,022</u>
Total assets	<u><u>\$28,362,460</u></u>

LIABILITIES AND MEMBERS' EQUITY

Reserve for losses and loss adjustment expenses	\$2,948,890
Unearned premiums	10,867,520
Premiums collected in advance	947,311
Premium taxes payable	699,428
Accounts payable and other liabilities	138,972
Accrued post-retirement benefits	<u>845,772</u>
Total liabilities	\$16,447,893
Members' equity	<u>11,914,567</u>
Total liabilities and members' equity	<u><u>\$28,362,460</u></u>

STATEMENT OF OPERATIONS
FISCAL-YEAR ENDED SEPTEMBER 30, 2014

Premiums earned	<u>\$18,856,513</u>
Losses	<u>\$9,924,574</u>
Loss adjustment expenses (including \$550,371 allocated from general operating expenses)	<u>\$1,284,298</u>
Underwriting expenses:	
Commissions	\$2,091,511
General operating expenses	2,203,119
Premium taxes	<u>698,790</u>
Total underwriting expenses	<u>\$4,993,420</u>
Underwriting income	\$2,654,221
Investment income	<u>36,304</u>
Net income	<u><u>\$2,690,525</u></u>

STATEMENT OF MEMBERS' EQUITY
FOR PERIOD UNDER REVIEW

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
	<u> </u>	<u> </u>	<u> </u>
Members' equity, beginning of year	\$3,692,470	\$7,508,058	\$8,949,702
Net income (loss)	1,250,253	780,231	2,690,525
Assessment paid to member companies for 2011	2,999,712		
Decrease (increase) in accrued pension obligation	(96,545)	607,526	35,574
Decrease (increase) in nonadmitted assets	<u>(337,832)</u>	<u>53,887</u>	<u>238,766</u>
Members' equity, end of year	<u><u>\$7,508,058</u></u>	<u><u>\$8,949,702</u></u>	<u><u>\$11,914,567</u></u>

STATEMENT OF CASH FLOW

Cash Flows From Operations Activities	
Net income	\$2,690,525
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense on nonadmitted property and equipment	33,626
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Premiums receivable	(18,903)
(Decrease) increase in liabilities:	
Reserve for losses and loss adjustment expenses	(1,889)
Unearned premiums	597,238
Premiums collected in advance	74,479
Premium taxes payable	40,163
Accounts payable and other liabilities	58,232
Accrued post-retirement benefits	3,695
Net cash provided by operating activities	<u>\$3,477,166</u>
Cash Flows From Investing Activities	
Purchases of certificates of deposit	(\$38,010,793)
Maturities of certificates of deposit	38,004,707
Net decrease in money market mutual funds	2,045
Net cash used in investing activities	<u>(\$4,041)</u>
Cash Flows From Financing Activities	
(Increase) decrease in nonadmitted assets, net of depreciation expense	1,948
Net cash used in financing activities	<u>\$1,948</u>
Net change in cash and cash equivalents	\$3,475,073
Cash and cash equivalents, beginning of year	<u>1,316,143</u>
Cash and cash equivalents, end of year	<u><u>\$4,791,216</u></u>

MEMBERS' ACCOUNT BY POLICY YEAR INCEPTION TO DATE
SEPTEMBER 30, 2014

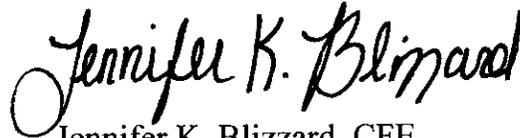
	1968-2009	2010	2011	2012	2013	2014	TOTAL
Description							
Premiums written	\$226,469,274	\$14,460,162	\$14,105,293	\$14,871,308	\$18,260,610	\$20,022,430	\$308,189,077
Unearned premiums	0	0	0	0	0	10,867,520	10,867,520
Earned Premiums	\$226,469,274	\$14,460,162	\$14,105,293	\$14,871,308	\$18,260,610	\$9,154,910	\$297,321,557
Losses paid	\$132,015,178	\$8,681,086	\$9,222,094	\$7,826,410	\$10,320,403	\$3,436,232	\$171,501,403
Unpaid losses	0	0	0	101,260	647,824	1,688,331	2,437,415
Incurred Losses	\$132,015,178	\$8,681,086	\$9,222,094	\$7,927,670	\$10,968,227	\$5,124,563	\$173,938,818
Allocated loss adjustment expenses paid	\$18,259,259	\$1,724,006	\$1,998,173	\$1,641,488	\$1,277,167	\$880,986	\$25,781,079
Unpaid allocated loss adjustment expenses	0	0	0	9,986	63,889	437,601	511,476
Incurred Loss Adjustment Expenses	\$18,259,259	\$1,724,006	\$1,998,173	\$1,651,474	\$1,341,056	\$1,318,587	\$26,292,555
Operating expense fund	\$38,657,650	\$2,074,476	\$2,093,888	\$2,187,417	\$2,225,492	\$2,187,048	\$49,425,971
Commission expenses	22,056,362	1,571,460	1,525,157	1,619,160	1,965,346	1,980,341	30,717,826
Member expenses	817,245	0	0	0	0	0	817,245
Premium taxes	6,661,650	497,903	528,947	507,519	547,915	658,627	9,402,561
Unpaid expenses	0	0	0	0	0	942,118	942,118
Commissions payable	0	(2)	(50)	(96)	(1,359)	166,838	165,331
Premium taxes payable	0	(71)	(156)	(315)	(18,240)	718,211	699,429
Underwriting Expense Incurred	\$68,192,907	\$4,143,766	\$4,147,786	\$4,313,685	\$4,719,154	\$6,653,183	\$92,170,481
Underwriting Gain (Loss)	\$8,001,930	(\$88,696)	(\$1,262,760)	\$978,479	\$1,232,173	(\$3,941,423)	\$4,919,703
Investment income received	\$8,749,737	\$51,816	\$55,856	\$39,189	\$42,295	\$36,304	\$8,975,197
Miscellaneous income received	38,340	0	(65)	0	0	0	38,275
Investment Gain	\$8,788,077	\$51,816	\$55,791	\$39,189	\$42,295	\$36,304	\$9,013,472
Members Equity (Deficit):							
Net increase/(decrease)	\$16,790,007	(\$36,880)	(\$1,206,969)	\$1,017,668	\$1,274,468	(\$3,905,119)	\$13,933,175
Operational assessment	4,903,350	0	2,999,712	0	0	0	7,903,062
Closing adjustments	8,482,555	8,314,899	3,186,080	(96,545)	607,526	238,766	20,733,281
Assessments (distributions)	(30,352,818)	0	0	0	0	0	(30,352,818)
Less non-admitted assets	(176,906)	753	6,807	7,277	27,496	436,706	302,133
Members Equity (Deficit)	\$0	\$8,277,266	\$4,972,016	\$913,846	\$1,854,498	(\$4,103,059)	\$11,914,567

CONCLUSION

The courteous cooperation extended by the Association's management and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Allison L. Bohrer, Mario A. Cuellar, CFE, and T. Bradford Earley, Jr., CFE, CPCU, AIAF of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

Jennifer K. Blizzard, CFE
Senior Insurance Examiner



STATE CORP. COMMISSION
2015 APR 27 AM 9:14
BUREAU OF INSURANCE

April 21, 2015

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

Re: Examination Report as of September 30, 2014.

Dear Mr. Smith:

Thank you for your letter dated April 3, 2015.

I have reviewed the report. It appears accurate as presented. The Association will need 18 copies of the examination report.

Please let me know if you need any additional information from the Association.

Sincerely,

Susan M. Tinsley, CPCU, AIC
General Manager & Secretary