

Examination Report
on
VIRGINIA PROPERTY INSURANCE ASSOCIATION
as of
September 30, 2017

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, 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, 2017, 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 24th day of May 2018

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 2, 2018

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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.

SCOPE OF THE EXAMINATION

The Association was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of September 30, 2014. This examination covers the three-year period from October 1, 2014, through September 30, 2017.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Association's financial condition, assess corporate governance, identify current and prospective risks of the Association and evaluate system controls, and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

HISTORY

The Association is a direct insurance association operating pursuant to Chapter 27 of Title 38.2 of the Code of Virginia. The Association was established by order of the State Corporation Commission (Commission) on July 26, 1968. 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. 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 June 1, 2016.

MANAGEMENT AND CONTROL

The Plan of Operation provides that the Association shall be governed by a board of fifteen directors composed of eleven Members of the Association, 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 representatives of the public 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, 2017, the board of directors and officers were as follows:

Board of DirectorsMember

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
 Chad Chandler
 Kelly Reisling
 Lisa Allen
 Betty Woolridge
 Ronald Weist
 Cornelius Scott
 Sam Rooks
 Corise Morrison
 Michael Donovan
 Shane Baden
 Douglas S. Favre
 W. Eugene Hayes
 Larry Halterman
 James Stacia

Officers

Sam Rooks
 David Bonenfant
 Susan Tinsley

Chairman
 Vice Chairman
 Secretary and Manager of the
 Association

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 Manual changed the area of operations from specific areas to statewide operations. 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 needed and the distribution of excess funds when available.

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 during renovation or construction. An inspection of the property may be made and, depending upon the report, a determination is made whether 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. Charges or surcharges 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, 2017:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Members' Equity (Deficit)</u>
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
2015	31,208,522	16,097,051	15,111,471
2016	36,064,413	16,252,172	19,812,241
2017	34,312,681	14,825,008	19,487,673

<u>Year</u>	<u>Premiums Earned</u>	<u>Incurred Losses</u>	<u>Loss Ratio</u>	<u>Net Income Or (Loss)</u>
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
2015	19,570,354	10,415,099	53.2%	3,217,755
2016	19,154,238	8,525,930	44.5%	4,787,142
2017	18,070,116	8,192,626	45.3%	4,040,876

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

	<u>Fiscal Years</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net premiums written	\$20,946,329	\$19,962,626	\$19,100,612
Losses paid	\$10,673,172	\$7,966,806	\$8,699,954
Ratio of losses paid to net premiums written	50.9%	39.9%	45.5%
Loss expenses paid	\$1,303,223	\$1,305,868	\$1,325,747
Ratio of loss expenses paid to net premiums written	6.2%	6.5%	6.9%
General operating expenses	\$1,935,841	\$1,882,323	\$2,089,393
Ratio of general expenses to net premiums written	9.2%	9.4%	10.9%
Commission expenses	\$2,091,931	\$1,992,230	\$1,890,768
Ratio of commission expenses to net premiums written	10.0%	10.0%	9.9%

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 \$33,000,000 in excess of the Association's retention of \$3,000,000.

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association as of September 30, 2017, a statement of operations for the fiscal year ending September 30, 2017, a statement of Members' equity for the period under review, a statement of cash flow for the fiscal year ending September 30, 2017, and a statement of Members' account by policy year as of September 30, 2017. 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	\$3,646,572
Certificates of deposit	30,479,217
Premiums receivable	<u>186,892</u>
Total assets	<u><u>\$34,312,681</u></u>

LIABILITIES AND MEMBERS' EQUITY

Reserve for losses and loss adjustment expenses	\$2,701,392
Unearned premiums	9,730,777
Premiums collected in advance	883,114
Premium taxes payable	635,080
Accounts payable and other liabilities	204,692
Accrued post-retirement benefits	<u>669,953</u>
Total liabilities	\$14,825,008
Members' equity	<u>19,487,673</u>
Total liabilities and members' equity	<u><u>\$34,312,681</u></u>

STATEMENT OF OPERATIONS
FISCAL-YEAR ENDED SEPTEMBER 30, 2017

Premiums earned	<u>\$18,070,116</u>
Losses	<u>\$8,192,626</u>
Loss adjustment expenses (including \$531,294 allocated from general operating expenses)	<u>\$1,280,727</u>
Underwriting expenses:	
Commissions	\$1,897,850
General operating expenses	2,076,059
Premium taxes	<u>634,519</u>
Total underwriting expenses	<u>\$4,608,428</u>
Underwriting income	\$3,988,335
Investment income	<u>52,541</u>
Net income	<u><u>\$4,040,876</u></u>

STATEMENT OF MEMBERS' EQUITY
FOR PERIOD UNDER REVIEW

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Members' equity, beginning of year	\$11,914,567	\$15,111,471	\$19,812,241
Net income	3,217,755	4,787,142	4,040,876
Distribution to member companies for 2012 year			(3,999,724)
Change in accrued post-retirement benefit obligation	(56,995)	(131,226)	359,441
Change in nonadmitted assets	36,144	44,854	(725,161)
Members' equity, end of year	<u>\$15,111,471</u>	<u>\$19,812,241</u>	<u>\$19,487,673</u>

STATEMENT OF CASH FLOW

Cash Flows From Operations Activities	
Net income	\$4,040,876
Adjustments to reconcile net income to net cash provide by operating activities:	
Depreciation expense on nonadmitted property and equipment	7,501
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Premiums receivable	(42,687)
(Decrease) increase in liabilities:	
Reserve for losses and loss adjustment expenses	(552,347)
Unearned premiums	(370,137)
Premiums collected in advance	(113,844)
Premium taxes payable	(28,677)
Accounts payable and other liabilities	2,344
Accrued post-retirement benefits	(5,062)
Net cash provided by operating activities	<u>\$2,937,967</u>
Cash Flows From Investing Activities	
Purchases of certificates of deposit	(\$97,229,881)
Maturities of certificates of deposit	100,182,224
Net cash used in investing activities	<u>\$2,952,343</u>
Cash Flows From Financing Activities	
(Increase) decrease in nonadmitted assets, net of depreciation expense	(732,662)
Distributions to member companies	(3,999,724)
Net cash used in financing activities	<u>(\$4,732,386)</u>
Net change in cash and cash equivalents	\$1,157,924
Cash and cash equivalents, beginning of year	<u>2,488,648</u>
Cash and cash equivalents, end of year	<u><u>\$3,646,572</u></u>

MEMBERS' ACCOUNT BY POLICY YEAR INCEPTION TO DATE
SEPTEMBER 30, 2017

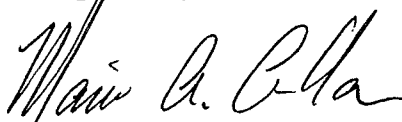
Description	<u>1968-2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>TOTAL</u>
Premiums written	\$269,902,682	\$18,254,441	\$19,412,856	\$19,457,255	\$18,635,477	\$18,184,333	\$363,847,044
Unearned premiums	0	0	0	0	0	9,730,777	9,730,777
Earned Premiums	\$269,902,682	\$18,254,441	\$19,412,856	\$19,457,255	\$18,635,477	\$8,453,556	\$354,116,267
Losses paid	\$157,785,876	\$10,801,109	\$10,146,337	\$9,106,405	\$7,961,680	\$3,039,927	\$198,841,334
Unpaid losses	0	6,848	15	43,970	734,530	1,445,774	2,231,137
Incurred Losses	\$157,785,876	\$10,807,957	\$10,146,352	\$9,150,375	\$8,696,210	\$4,485,701	\$201,072,471
Allocated loss adjustment expenses paid	\$23,632,988	\$1,322,499	\$1,350,682	\$1,259,909	\$1,318,625	\$831,214	\$29,715,917
Unpaid allocated loss adjustment expenses	0	647	0	4,153	69,369	396,085	470,254
Incurred Loss Adjustment Expenses	\$23,632,988	\$1,323,146	\$1,350,682	\$1,264,062	\$1,387,994	\$1,227,299	\$30,186,171
Operating expense fund	\$45,013,433	\$2,225,492	\$2,187,048	\$1,935,841	\$1,882,323	\$2,089,393	\$55,333,530
Commission expenses	26,771,724	1,963,272	2,086,884	2,082,984	1,997,015	1,790,876	36,692,755
Member expenses	817,245	0	0	0	0	0	817,245
Premium taxes	8,196,019	547,915	658,627	698,855	695,862	663,196	11,460,474
Unpaid expenses	0	0	0	0	0	929,561	929,561
Commissions payable	0	0	0	(27)	(2,024)	154,896	152,845
Premium taxes payable	0	12	(41)	(137)	(15,807)	651,053	635,080
Underwriting Expense Incurred	\$80,798,421	\$4,736,691	\$4,932,518	\$4,717,516	\$4,557,369	\$6,278,975	\$106,021,490
Underwriting Gain (Loss)	\$7,685,397	\$1,386,647	\$2,983,304	\$4,325,302	\$3,993,904	(\$3,538,419)	\$16,836,135
Investment income received	\$8,896,597	\$42,295	\$36,304	\$35,619	\$41,182	\$52,541	\$9,104,538
Miscellaneous income received	38,276	0	0	0	0	0	38,276
Investment Gain	\$8,934,873	\$42,295	\$36,304	\$35,619	\$41,182	\$52,541	\$9,142,814
Members Equity (Deficit):							
Net increase/(decrease)	\$16,620,270	\$1,428,942	\$3,019,608	\$4,360,921	\$4,035,086	(\$3,485,878)	\$25,978,949
Operational assessment	7,903,062	0	0	0	0	0	7,903,062
Closing adjustments	9,652,304	10,842,210	0	0	0	409,986	20,904,500
Assessments (distributions)	(34,352,543)	0	0	0	0	0	(34,352,543)
Less non-admitted assets	(176,907)	454	0	751	7,177	1,114,819	946,294
Members Equity (Deficit)	\$0	\$12,270,698	\$3,019,608	\$4,360,170	\$4,027,909	(\$4,190,711)	\$19,487,674

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the Association during the course of the examination was sincerely appreciated.

In addition to the undersigned, Jennifer K. Blizzard, CFE, John P. Drean, CFE, and Chris J. Collins, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is fluid and cursive, with a large initial "M" and "C".

Mario A Cuellar, CFE
Senior Insurance Examiner



Via hand delivery to the Bureau of Insurance and through standard mail

May 21, 2018

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

Re: Examination Report – Period Ending September 30, 2017

Dear Mr. Smith:

Thank you for your letter dated April 24, 2018. 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