

**EXAMINATION REPORT**  
**of**  
**VML INSURANCE PROGRAMS**  
**GLEN ALLEN, VIRGINIA**  
**as of**  
**JUNE 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 VML Insurance Programs as of June 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 9<sup>th</sup> day of May 2018

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
February 14, 2018

Honorable Scott A. White  
Commissioner of Insurance  
Richmond, Virginia

Dear Sir:

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:

### **VML INSURANCE PROGRAMS**

Glen Allen, Virginia

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

### **SCOPE OF THE EXAMINATION**

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 last examination of the VMLIP was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of June 30, 2012. This examination covers the period from July 1, 2012 through June 30, 2017.

The Bureau planned and performed the examination to evaluate the Association's financial condition and operational activities. All accounts and activities of the Association were considered generally in accordance with the risk-focused examination process contained in the NAIC Financial Condition Examiners Handbook.

### **DESCRIPTION**

The VMLIP is a local government group self-insurance pool licensed to provide risk management and liability insurance coverage to its members pursuant to Section 15.2-2706 of the Code of Virginia and 14 VAC 5-360-10 et seq. (Rules Governing Local Government Group Self-Insurance Pools) promulgated by the State Corporation Commission (the "Commission").

## HISTORY

The VMLIP was licensed by the Bureau on July 1, 1986. According to its bylaws, the VMLIP was formed:

"... to provide for cooperative action in providing risk management services as well as insurance coverage for pool members and employees of pool members for acts or omissions arising out of the scope of their employment..."

Effective July 1, 2010, the Members' Supervisory Boards of both the VMLIP (formally known as the Virginia Municipal Liability Pool) and the Virginia Municipal Group Self-insurance Association (the "Association") approved a merger of the VMLIP and the Association, with the VMLIP being the surviving entity. The merger allowed for the combined pooling of liability claims, property losses and liabilities arising out of the Virginia Workers' Compensation Act.

## MANAGEMENT AND CONTROL

Control of the VMLIP is vested in a Members' Supervisory Board (the "Board") elected by the members of the VMLIP. The by-laws provide for no less than six nor more than nine Board members, of which all shall be elected or appointed officials of members of the VMLIP. The Board members serve three year terms or until their successors are elected. In addition to the elected Board members, the Executive Director of the Virginia Municipal League ("VML") shall serve as an ex-officio board member with the full power to vote on all matters which come before the board and whose presence shall be counted in the determination of a quorum at any meeting. The Board and officers were as follows at June 30, 2017:

### Representative

Kurt D. Hodgen

Kimberly L. Winn, Ex-officio

Cecil R. Harris, Jr.

### Affiliation

City Manager  
City of Harrisonburg  
Harrisonburg, Virginia

Executive Director  
VML  
Richmond, Virginia

County Administrator  
Hanover County  
Hanover, Virginia

Melinda M. Conner

Town Manager  
Town of Clarksville  
Clarksville, Virginia

Darlene L. Burcham

Town Manager  
Town of Clifton Forge  
Clifton Forge, Virginia

Karen L. Pallansch

General Manager  
Alexandria Sanitation Authority  
Alexandria, Virginia

Peter M. Stephenson

Town Manager  
Town of Smithfield  
Smithfield, Virginia

R. Clarke Wallcraft

Executive Director  
Pepper's Ferry Wastewater Authority  
Radford, Virginia

Brian S. Thrower

City Manager  
City of Emporia  
Emporia, Virginia

#### Officers

Kurt D. Hodgen  
Cecil R. Harris, Jr.  
P. Steven Craig

Chairperson  
Vice-Chairperson  
Secretary

### **TERRITORY AND PLAN OF OPERATION**

The operation of the VMLIP is confined to Virginia where it is licensed to transact the business of commercial multiple peril, inland marine, liability other than auto, automobile liability, automobile physical damage, fidelity, surety, boiler and machinery, and workers' compensation and employers' liability. Membership in the VMLIP is available to political subdivisions of the Commonwealth of Virginia, or agencies thereof. Members are required to enter into member agreements which set forth the rights, privileges and obligations of the members, as well as the terms, coverages, limits, and deductibles of the plan. The VMLIP's operations are conducted on a fiscal year basis ending June 30.

## **PARTNERSHIP AGREEMENT**

Effective October 17, 2013, the VMLIP entered into a partnership agreement with the VML. The initial term of the agreement is for a period of five years and eight months unless prior to the end of such term, the parties mutually agree in writing to an extension. Either party may terminate this agreement with 180 days prior written notice. According to the agreement, the VML is responsible for, but not limited to, the following:

- Transfer of the VML employees who are responsible for administration and servicing of the VMLIP into the VMLIP's employment.
- Grant a license to the VMLIP for use of the name, seal, logo, trademark, and other materials of the VML.
- Indemnify, defend, and hold harmless the VMLIP and the VMLIP's officers, employees, and agents from any and all losses, costs or expenses including reasonable attorney's fees, incurred by the VMLIP.

As compensation for its services, the VML shall receive 1.75% of the annual adjusted premiums paid by all members. Only member contributions attributable to the coverages provided by the VMLIP shall be used as the basis for calculating the fee. Additionally, the VMLIP shall provide an annual conference support fee of \$25,000 to the VML. For the 2016/2017 fiscal year, the VMLIP incurred \$892,802 in fees related to this agreement.

## **OTHER SERVICE AGREEMENTS**

### **Medical Bill Review Service**

Effective May 8, 2014, the VMLIP entered into a medical bill review service agreement with WellComp Managed Care Services, Inc. ("WellComp"). According to the agreement, WellComp will perform repricing services which entail a retrospective review and adjudication of worker's compensation medical bills, to include medical bill review and retrospective utilization reviews. After any applicable adjustments, WellComp shall process the medical payments directly on behalf of the VMLIP through access to an interface system it establishes to operate with the VMLIP's claims administration system. As compensation for paying medical claims and performing repricing services, WellComp receives \$21.25 per bill and a 33% performance fee on gross savings (calculated as repricing savings divided by initial medical charges). For the 2016/2017 fiscal year, the VMLIP incurred \$247,616 in fees related to this agreement.

### Broker Services

Effective July 1, 2010, the VMLIP entered into a broker services agreement with Alliant Insurance Services, Inc. ("Alliant"). The VMLIP shall have the option to extend the agreement for two additional one-year periods by written notification prior to the anniversary date. According to the agreement, Alliant shall provide technical assistance in various areas including the placement of reinsurance, marketing, underwriting, filing of required reports and additional broker services as agreed upon by the parties. For these services, Alliant received a fee of \$325,000 for the 2016/2017 fiscal year.

### Managed Care Services

Effective March 15, 2010, the VMLIP entered into a managed care services agreement with Coventry Health Care Workers Compensation, Inc. ("Coventry"). According to the agreement, Coventry shall perform the first report of injury program, provide access to a toll-free telephone service by which injuries can be reported, provide promotional and information packages to members for notice of claims reporting and provide the VMLIP monthly first report of injury reports. For these services, Coventry shall receive a stipulated fee per call. For the 2016/2017 fiscal year, the VMLIP incurred \$201,823 in fees related to this agreement.

### Project Management Services

Effective August 15, 2015, the VMLIP entered into a project management services agreement with EBS, LLP ("EBS"). There are no term limits to the initial agreement, however, either party may terminate the agreement upon 30 days written notice. According to the agreement, EBS will provide project management services as required by the VMLIP. For these services, EBS will receive \$75.00 per hour. For the 2016/2017 fiscal year, the VMLIP incurred \$38,036 fees related to this agreement.

## **DIVIDENDS TO MEMBERS**

Any surplus assets accumulated within a fiscal year may be declared refundable by the Board. Payment of this surplus in the form of dividends, however, may not be made until certified by an actuary and the VMLIP has received acknowledgement from the Bureau. During the examination period, no dividends were acknowledged by the Bureau.

## **SPECIAL RESERVES AND DEPOSITS**

At June 30, 2017, the VMLIP had securities in the amount of \$160,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-360-45.



**REINSURANCE COVERAGE**

The VMLIP had reinsurance coverage in force at June 30, 2017 as set forth in the following schedules:

<b><u>Class of Business</u></b>	<b><u>VMLIP's Retention</u></b>	<b><u>Reinsurer's Limits</u></b>
Automobile Liability, General Liability, Public Officials Liability, Law Enforcement Liability, School Board Legal Liability, Employee Benefits Liability	\$1,000,000 each occurrence	\$10,000,000 per occurrence in excess of \$1,000,000 of the VMLIP's retention, subject to various annual aggregate limits

Each member has the option of increasing its liability coverages to a higher limit than the basic \$1,000,000 limit offered by the VMLIP. The additional umbrella limits of up to \$10,000,000 excess are placed through the reinsurer, subject to their approval, with the first \$1,000,000 of coverage retained by the VMLIP.

<b><u>Class of Business</u></b>	<b><u>VMLIP's Retention</u></b>	<b><u>Reinsurer's Limits</u></b>
General Property	\$1,000,000 per occurrence before exhaustion of the annual aggregate pool deductible of \$4,000,000 after which a \$25,000 maintenance deductible applies. The flood occurrence limit is \$500,000.	\$1,000,000,000 per occurrence: all perils, coverages and members combined, subject to various sub-limits.
Auto Physical Damage	\$150,000 per vehicle- comprehensive/collision	Replacement cost basis per member's schedule of insured vehicles with purchase cost greater than \$75,000.

For the above Property and Auto Physical Damage business, members select deductibles between \$0 and \$100,000.

<u>Class of Business</u>	<u>VMLIP's Retention</u>	<u>Reinsurer's Limits</u>
Boiler & Machinery	\$100,000 per occurrence	\$100,000,000 each occurrence

For Boiler & Machinery business, the VMLIP's retention limit on insured equipment varies between \$100,000 and \$350,000 depending on the equipment size and output rating.

Workers' Compensation	\$1,500,000 maximum each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
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**FINANCIAL STATEMENTS**

There follows a statement of financial condition of the VMLIP as of June 30, 2017, a statement of revenue and expenses for the fiscal year ended June 30, 2017, a statement of changes in members' equity for the period under review, and a statement of cash flows for the fiscal year ended June 30, 2017.

**BALANCE SHEET**  
**JUNE 30, 2017**

ASSETS

Current assets:	
Cash and cash equivalents	\$12,010,818
Investments	32,207,015
Accounts and contributions receivable	1,077,599
Accrued interest receivable	1,457,079
Reinsurance receivable	2,029,696
Prepaid expenses	24,997
Total current assets	<u>\$48,807,204</u>
Noncurrent assets:	
Property and equipment	
Building and improvements	\$4,729,802
Furniture and equipment	2,603,187
Less accumulated depreciation	<u>(2,372,376)</u>
	\$4,960,613
Investments	246,129,586
Restricted deposit	160,000
Total noncurrent assets	<u>\$251,250,199</u>
Total assets	<u>\$300,057,403</u>

LIABILITIES AND EQUITY

Current liabilities:	
Liability for unpaid losses, net	\$26,245,764
Contributions collected in advance	3,249,237
Capital leases	70,043
Reinsurance payable	168,791
Other liabilities	1,188,189
Total current liabilities	<u>\$30,922,024</u>
Noncurrent liabilities:	
Liability for unpaid losses, net	161,268,920
Total liabilities	<u>\$192,190,944</u>
Equity:	
Net investment in capital assets	\$4,890,570
Unrestricted equity	85,176,003
Restricted equity	17,799,886
Total equity	<u>\$107,866,459</u>
Total liabilities and equity	<u>\$300,057,403</u>

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Operating revenues:	
Member contributions	\$54,143,947
Miscellaneous income	138,536
Total operating revenues	<u>\$54,282,483</u>
Operating expenses:	
Provision for losses and loss adjustment expenses	\$33,993,637
Program administration fees	10,752,889
Reinsurance premiums	10,011,251
Total operating expenses	<u>\$54,757,777</u>
Operating loss	<u>(\$475,294)</u>
Non-operating revenues:	
Investment income	\$7,980,980
Net decrease in fair value of investments	(5,680,817)
Total non-operating revenues	<u>\$2,300,163</u>
Non-operating expenses	<u>755,835</u>
Non-operating income	<u>\$1,544,328</u>
Change in equity	\$1,069,034
Equity at beginning of year	<u>106,797,425</u>
Equity at end of year	<u><u>\$107,866,459</u></u>

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>	<u>2015/2016</u>	<u>2016/2017</u>
Members' Equity, beginning of fiscal year	<u>\$75,924,753</u>	<u>\$79,812,432</u>	<u>\$98,924,211</u>	<u>\$101,217,959</u>	<u>\$106,797,425</u>
Excess of revenues over expenses	<u>3,887,679</u>	<u>19,111,779</u>	<u>2,293,748</u>	<u>5,579,466</u>	<u>1,069,034</u>
Members' Equity, end of fiscal year	<u><u>\$79,812,432</u></u>	<u><u>\$98,924,211</u></u>	<u><u>\$101,217,959</u></u>	<u><u>\$106,797,425</u></u>	<u><u>\$107,866,459</u></u>

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Cash flows from operating activities:	
Receipts from members	\$52,887,810
Payments for reinsurance premiums	(9,941,281)
Receipts from reinsured claims	4,052,505
Payments for claims and adjustment expenses	(30,868,093)
Receipts from miscellaneous income, net	138,536
Payments for administrative and general expenses	(11,067,776)
Net cash provided by operating activities	<u>\$5,201,701</u>
Cash flows from noncapital financing activities:	
Payments for miscellaneous income	<u>(286,068)</u>
Cash flows from capital and related financing activities:	
Purchase of property and equipment	<u>(\$903,807)</u>
Cash flows from investing activities:	
Proceeds from calls and maturities of investments	\$121,521,761
Purchases of investments	(138,401,317)
Investment income	7,368,431
Net cash used for investing activities	<u>(\$9,511,125)</u>
Net increase (decrease) in cash and cash equivalents	(\$5,499,299)
Cash and cash equivalents:	
Beginning of year	<u>17,510,117</u>
End of year	<u><u>\$12,010,818</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	(\$475,294)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	421,615
Provision for losses	6,263,855
Changes in assets and liabilities:	
Accounts and contributions receivable	(371,909)
Reinsurance recoverable	914,193
Prepaid expenses	(10,518)
Contributions collected in advance	(849,184)
Reinsurance payable	34,926
Other liabilities	(725,983)
Net cash provided by operating activities	<u><u>\$5,201,701</u></u>

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the courteous cooperation extended by the VMLIP and staff during the course of the examination.

In addition to the undersigned, , Chris Collins, CFE, Kevin Knight, CFE, Jack Dreaan, CFE, and Ben MacKercher participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gerald T. Hicks II". The signature is written in a cursive style with a prominent initial "G".

Gerald T. Hicks II,  
Insurance Examiner





April 25, 2018

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

RE: VML Insurance Programs Examination Report as of June 30, 2017

Dear Mr. Smith,

Pursuant to your correspondence as of April 2, 2018, please accept this as acknowledgement of receipt of the aforementioned report.

We would appreciate ten (10) copies of the final report.

Sincerely,

A handwritten signature in cursive script that reads "Cecil R. Harris, Jr.".

Cecil R. Harris, Jr.  
Chair, Members' Supervisory Board  
VML Insurance Programs