

EXAMINATION REPORT
of
BUILDING INDUSTRY INSURANCE ASSOCIATION, INC.
Norfolk, Virginia
as of
December 31, 2019

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 Building Industry Insurance Association as of December 31, 2019, 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 19th day of May 2021

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

Scott A. White
Commissioner of Insurance



TABLE OF CONTENTS

Scope of the Examination 1

History 2

Management and Control 3

Related Party Transactions 5

Territory and Plan of Operation 5

Growth of the Association..... 7

Reinsurance 8

Financial Statements..... 10

Acknowledgment..... 17

Richmond, Virginia
March 31, 2021

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

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

BUILDING INDUSTRY INSURANCE ASSOCIATION, INC.

Norfolk, 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 Bureau of Insurance (Bureau) as of December 31, 2016. This examination covers the period from December 1, 2017 through December 31, 2019.

The 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.

The services of Oliver Wyman Actuarial Consulting, Inc. were employed to provide an actuarial report as to the reasonableness of the Association's loss and loss adjustment expense reserves as of December 31, 2019.

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 Company.

HISTORY

The Association is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Association was incorporated on November 13, 2007 and licensed in Virginia on November 30, 2007. On the same date, Mid-Atlantic Insurance Corporation, a home protection company, merged with the Association. The Association commenced business on December 1, 2007.

On January 7, 2009, Builders Insurance Association, Inc. (BIAI), a risk retention group domiciled in South Carolina, merged with the Association. On September 21, 2009, Insurance Services Agency, Inc., a non-insurer wholly owned by TBA, was merged into the Association. On October 21, 2009, Building Insurance Association, Inc. (BIA), a Virginia group self-insurance association, was merged into the Association.

On March 8, 2013, the Association was acquired from TBA by Altorva, Inc. (Altorva), a Virginia corporation. Altorva acquired all of the outstanding shares of the Company for \$2,500,000. Altorva authorized 1,000 shares of capital stock. The Company issued 500 shares of common stock with no par value. In February 2014, Altorva made a capital contribution of \$1,308,069. The capital contribution was satisfied by receipt of cash prior to the filing of the 2013 Annual Statement and was therefore included as part of the Association's 2013 year-end capital and surplus. In 2018, Christopher Carey, the President of the Association, entered into a Stock Sales Agreement with Metis Holdings, Inc. to sell his majority interest in Altorva. As a condition of the sale, Metis Holdings, Inc. (Metis) agreed to make a capital contribution to Altorva in the amount of \$2,900,000, which Altorva used to make a capital contribution to the Association. The Association received approval in April 2018 from the Bureau and the funds were remitted in accordance with the conditions of the Stock Sales Agreement.

MANAGEMENT AND CONTROL

The bylaws provide that management be vested in a board of directors consisting of not more than nine members. Directors need not be shareholders of the Association. At any meeting, a majority of the members of the board constitutes a quorum for the transaction of business.

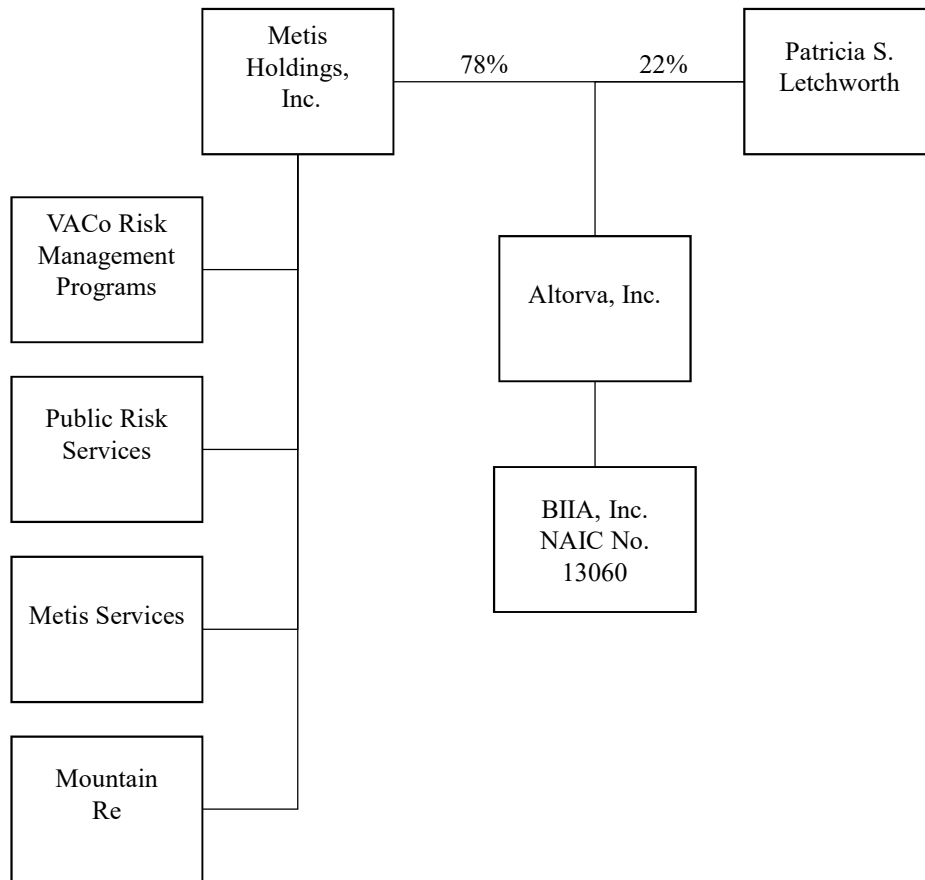
The bylaws further provide that officers of the Association shall be a president, one or more vice presidents, a secretary and a treasurer. Directors and officers of the Association as of December 31, 2019, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Christopher J. Carey	President of the Association Roanoke, Virginia
Patricia S. Letchworth	Vice President and Chief Operating Officer of the Association Norfolk, Virginia

Officers

Christopher J. Carey	President
Patricia S. Letchworth	Vice President and Chief Operating Officer

All of the Association's outstanding shares are held by Altorva. The following chart shows the Association's relationship to its parent as of December 31, 2019:



RELATED PARTY TRANSACTIONS

Management Agreements

The Association entered into a revised management agreement with Altorva on January 1, 2015. Pursuant to this agreement, Altorva provides transaction, advisory, insurance, financial, management, consulting, and administrative services to the Association. As compensation for services, the Association agrees to pay Altorva rates which approximate cost on a quarterly basis. During 2019, approximately \$240,000 of expenses were incurred under this agreement. This agreement is in effect for an initial term of five years and will be renewed automatically thereafter on a year-to-year basis unless terminated by either party.

On March 8, 2013, Metis entered into an administrative and other services agreement with Altorva. Pursuant to this agreement, Metis provides claim servicing, bill review services and other administrative services to the Association, Altorva's subsidiary. The Association paid service fees of approximately \$146,526 for these services during 2019. The initial term of this agreement expired January 31, 2018 and was renewed for a successive three-year period thereafter.

TERRITORY AND PLAN OF OPERATION

The Association is licensed in Virginia as a property and casualty insurer under Chapter 10 of Title 38.2 of the Code of Virginia. As of December 31, 2019, the Association is licensed to write the following lines of business:

Auto Liability	Home Protection
Auto Physical Damage	Inland Marine
Boiler & Machinery	Liability Other Than Automobile
Burglary & Theft	Miscellaneous Property & Casualty
Commercial Multi-Peril	Ocean Marine
Fidelity	Surety
Fire	Workers Compensation and Employers Liability
Glass	

The Association currently issues workers compensation, commercial auto liability, inland marine, and other liability policies. The Association ceased writing new home protection policies on October 15, 2009. During 2012, the Association entered into a loss portfolio transfer agreement with Bankers Insurance Company (Bankers) where Bankers agreed to assume all claim liabilities relating to the Association's home warranty line of coverage. This resulted in a \$762,164 net income effect and was reported in the 2012 Annual Statement.

General liability policy rules, forms and loss costs are filed by the Insurance Services Office (ISO) on behalf of the Association. Loss cost factors and exceptions to rules and forms are filed by the Association and approved by the Bureau. The Association charges a minimum policy premium of \$500 which includes a policy fee of \$150 charged to all policies.

Likewise, forms and loss costs for workers compensation and employers liability are filed by the National Council on Compensation Insurance (NCCI) on behalf of the Association and loss cost factors and exceptions to rules and forms are filed by the Association and approved by the Bureau. The Association charges an expense constant of \$240 and a minimum premium of \$1,500 inclusive of the expense constant.

GROWTH OF THE ASSOCIATION

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Association since its inception through December 31, 2019:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital Paid Up</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2010	\$15,996,594	\$9,115,467	\$1,000,000	\$6,410,700	(\$529,573)
2011	13,852,090	8,206,727	1,000,000	6,410,700	(1,765,337)
2012	14,433,784	12,211,684	1,000,000	6,406,091	(5,183,991)
2013	18,280,071	16,665,880	1,000,000	7,714,160	(7,099,969)
2014	18,556,054	13,682,129	1,000,000	7,714,160	(3,840,235)
2015	17,773,587	13,169,111	1,000,000	7,714,160	(4,109,684)
2016	20,292,661	18,739,447	1,000,000	7,714,160	(7,160,946)
2017	26,290,247	19,557,308	1,000,000	10,614,160	(4,881,221)
2018	28,230,778	19,900,458	1,000,000	10,614,160	(3,283,840)
2019	29,061,842	19,734,024	1,000,000	10,614,160	(2,286,342)

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2010	\$3,377,606	\$3,080,601	\$2,274,501	(\$1,977,496)
2011	3,322,123	2,151,896	2,277,554	(1,107,327)
2012	4,962,305	6,382,750	3,344,998	(4,765,443)
2013	7,016,255	8,034,930	3,923,314	(4,941,989)
2014	11,455,484	8,650,889	4,147,949	(1,343,354)
2015	10,868,596	6,883,555	4,379,290	(394,249)
2016	12,781,744	10,287,818	5,903,016	(3,409,090)
2017	17,078,042	11,826,766	5,383,387	(132,111)
2018	17,121,313	9,443,327	6,992,921	685,065
2019	11,537,577	6,215,613	5,163,185	158,779

REINSURANCE

At December 31, 2019, the Association had the following reinsurance coverage in force. All reinsurance coverage is placed with nonaffiliated reinsurers:

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Association's Retention</u>	<u>Reinsurers' Limits</u>
Excess of Loss	Workers Compensation and Employers' Liability	<u>First Layer:</u> \$500,000 each and every loss occurrence	\$500,000 excess of \$500,000 each and every loss occurrence; maximum any one life is \$10,000,000
		<u>Second Layer:</u> \$1,000,000 each and every loss occurrence	\$1,000,000 excess of \$1,000,000 each and every loss occurrence; maximum any one life is \$10,000,000
		<u>Third Layer:</u> \$2,000,000 each and every loss occurrence	\$3,000,000 excess of \$2,000,000 each and every loss occurrence; maximum any one life is \$10,000,000
		<u>Fourth Layer:</u> \$5,000,000 each and every loss occurrence	\$5,000,000 excess of \$5,000,000 each and every loss occurrence; maximum any one life is \$10,000,000

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Association's Retention</u>	<u>Reinsurers' Limits</u>
Excess of Loss	General Liability	<u>First Layer:</u> \$250,000 ultimate net loss, each insured, each loss occurrence	100% of the ultimate net loss in excess of \$250,000, each insured, each loss occurrence; reinsurers' liability shall never exceed \$750,000 ultimate net loss, each insured, each loss occurrence
		<u>Second Layer</u> \$1,000,000 ultimate net loss, each insured, each loss occurrence	100% of the ultimate net loss in excess of \$1,000,000, each insured, each loss occurrence; reinsurers' liability shall never exceed \$1,000,000 ultimate net loss, each insured, each loss occurrence

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Association for the period ending December 31, 2019. No examination adjustments were made to the statutory financial statements filed by the Association with the Bureau for the period ending December 31, 2019.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$14,542,694		\$14,542,694
Preferred stocks	401,538		401,538
Common stocks	1,253,369		1,253,369
Cash and short-term investments	4,238,374		4,238,374
Investment income due and accrued	120,177		120,177
Uncollected premiums and agents' balances in the course of collection	4,305,225	2,154,702	2,150,523
Deferred premiums, agents' balances and installments booked but deferred	3,522,459		3,522,459
Amounts recoverable from reinsurers	2,294,878		2,294,878
Net deferred tax asset	500,000		500,000
Aggregate write-ins for other than invested assets	37,830		37,830
Totals	<u>\$31,216,544</u>	<u>\$2,154,702</u>	<u>\$29,061,842</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$11,666,206
Loss adjustment expenses		2,018,361
Commissions payable, contingent commissions and other similar charges		157,963
Other expenses		157,144
Taxes, licenses and fees		218,382
Current federal income taxes		6,000
Unearned premiums		4,990,038
Advance premium		131,164
Ceded reinsurance premiums payable		299,119
Amounts withheld or retained by company for account of others		
Payable to parents, subsidiaries and affiliates		<u>89,647</u>
 Total liabilities		 \$19,734,024
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	10,614,160	
Unassigned funds (surplus)	<u>(2,286,342)</u>	
 Surplus as regards policyholders		 <u>9,327,818</u>
 Totals		 <u><u>\$29,061,842</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$11,537,577</u>
Deductions:	
Losses incurred	\$5,514,697
Loss expenses incurred	700,916
Other underwriting expenses incurred	<u>5,163,185</u>
Total underwriting deductions	<u>\$11,378,798</u>
Net underwriting gain	<u>\$158,779</u>

INVESTMENT INCOME

Net investment income earned	\$420,494
Net realized capital losses	<u>302,223</u>
Net investment gain	<u>\$722,717</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>\$174,700</u>
Total other income	<u>\$174,700</u>

Net income before federal income taxes	\$1,056,196
Federal income tax incurred	<u>6,000</u>
Net income	<u><u>\$1,050,196</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Surplus as regards policyholders, December 31, previous year	<u>\$1,553,214</u>	<u>\$6,732,939</u>	<u>\$8,330,320</u>
Adjustment for previous examination changes	\$3,548,820		
Net income	692,347	1,425,204	1,050,196
Change in net unrealized capital gains or (losses)	49,453	(93,819)	185,753
Change in net deferred income tax	(1,077,000)	(261,000)	(170,000)
Change in nonadmitted assets	(933,895)	526,996	593,172
Surplus adjustments: Paid in Aggregate write-ins for gains or losses in surplus	2,900,000		<u>(661,623)</u>
Change in surplus as regards policyholders for the year	<u>\$5,179,725</u>	<u>\$1,597,381</u>	<u>\$997,498</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$6,732,939</u></u>	<u><u>\$8,330,320</u></u>	<u><u>\$9,327,818</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$12,601,640
Net investment income	457,140
Miscellaneous income	174,700
Total	<u>\$13,233,480</u>
Benefit and loss related payments	\$5,229,163
Commissions, expenses paid and aggregate write-ins for for deductions	5,369,349
Total	<u>\$10,598,512</u>
Net cash from operations	<u>\$2,634,968</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$11,005,171
Stocks	517,666
Total investment proceeds	<u>\$11,522,837</u>
Cost of investments acquired (long-term only):	
Bonds	\$11,846,519
Stocks	836,045
Miscellaneous applications	2
Total investments acquired	<u>\$12,682,566</u>
Net cash from investments	<u>(\$1,159,729)</u>
Net change in cash and short-term investments	<u>\$1,475,239</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$2,763,135
End of year	4,238,374
Net change in cash and short-term investments	<u>\$1,475,239</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Jennifer K. Blizzard, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Bradford Earley, Jr.', written in a cursive style.

T. Bradford Earley, Jr., AIAF, CFE, CPCU
BOI Manager



May 4, 2021

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

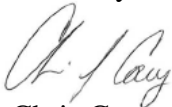
Re: Building Industry Insurance Association, Inc.
Examination Report as of December 31, 2019

Dear Mr. Smith:

I am in receipt of the examination report as of December 31, 2019 for Building Industry Insurance Association, Inc. I would like to thank your staff for their performance of the audit. Their interactions with staff were professional in every respect.

Since there are no recommendations for corrective action, this letter acknowledges receipt of the report. If I can be of further assistance, please let me know.

Sincerely,


Chris Carey
President

Cc: Patty Letchworth, Chief Operating Officer, BIIA, Inc.