

**EXAMINATION REPORT**  
**of**  
**VIRGINIA RISK SHARING ASSOCIATION**  
**GLEN ALLEN, VIRGINIA**  
**as of**  
**June 30, 2022**

# COMMONWEALTH OF VIRGINIA



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

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
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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 Risk Sharing Association as of June 30, 2022, 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 13<sup>th</sup> day of June 2023

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

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
May 17, 2023

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:

**VIRGINIA RISK SHARING ASSOCIATION**

Glen Allen, Virginia

hereinafter referred to as VRSA, 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 VRSA was made by representatives of the State Corporation Commission's Bureau of Insurance (the Bureau) as of June 30, 2017. This examination covers the period from July 1, 2017 through June 30, 2022.

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

The examination report includes findings of fact and general information about VRSA and its financial condition.

**DESCRIPTION**

VRSA 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 Bureau.

## **HISTORY**

VRSA was licensed by the Bureau on July 1, 1986. According to its bylaws, VRSA 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 the VML Insurance Programs (formerly the Virginia Municipal Liability Pool) and the Virginia Municipal Group Self-insurance Association approved a merger, with VML Insurance Programs 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.

Effective September 1, 2013, VRSA formed the Virginia Local Government Risk Agency, LLC (VLGRA) as a wholly-owned subsidiary. VLGRA is an insurance agency and is primarily used for short-term disability and flood insurance.

On July 1, 2018, VRSA created Virginia Interlocal Risk Sharing Association RE, LLC, a captive reinsurance company and wholly-owned subsidiary of VRSA.

On March 14, 2019, the Board voted to change the name of the Association from VML Insurance Programs to Virginia Risk Sharing Association effective July 1, 2019.

## **MANAGEMENT AND CONTROL**

Control of VRSA is vested in a Members' Supervisory Board (the Board) elected by the members of VRSA. 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 VRSA. 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, 2022:

<u>Representative</u>	<u>Affiliation</u>
William H. Ashton II	Town Manager Town of Herndon Herndon, Virginia
Dr. Walter R. Clemons	Superintendent Gloucester County Gloucester, Virginia
Joshua S. Farrar	Town Manager Town of Ashland Ashland, Virginia
Michelle L. Gowdy, Ex-officio	Executive Director VML Richmond, Virginia
Rodney A. Hathaway	County Administrator New Kent County New Kent, Virginia
Amanda Jarratt	City Manager City of Franklin Franklin, Virginia
Karen L. Pallansch	Chief Executive Officer Alexandria Renew Enterprises Alexandria, Virginia
Michael McEvoy	Executive Director Western Virginia Water Authority Roanoke, Virginia

Officers

Joshua S. Farrar	Chairperson
Rodney A. Hathaway	Vice-Chairperson
Marcus O. Hensel	Secretary

## **TERRITORY AND PLAN OF OPERATION**

The operation of VRSA 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 VRSA 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. VRSA's operations are conducted on a fiscal year basis ending June 30.

## **SPONSORSHIP AGREEMENT**

Effective July 1, 2019, VRSA entered into a sponsorship agreement with the VML. The initial term of the agreement is for a period of ten years. 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:

- The use of VRSA employees by VML and vice versa.
- Grant a license to VRSA for use of the name, seal, logo, trademark, and other materials of the VML.
- Indemnify, defend, and hold harmless VRSA and VRSA's officers, employees, and agents from any and all losses, costs or expenses including reasonable attorney's fees, incurred by VRSA.

As compensation for its services, VRSA shall pay VML a declining annual payment starting at \$750,000 in 2020 with annual reductions of \$50,000 until the final payment of \$300,000 is reached in 2029. On July 1, 2022, the agreement was amended with the term restated as July 1, 2022 through June 30, 2032 and the compensation was modified to a rate of \$750,000 annually. For the 2021/2022 fiscal year, VRSA incurred \$650,000 in fees related to this agreement.

## **OTHER SERVICE AGREEMENTS**

### Managed Care Services

Effective May 8, 2014, VRSA entered into a medical bill review service agreement with CareWorks Managed Care Services, Inc.(CareWorks), formerly WellComp Managed Care Services, Inc. According to the agreement, CareWorks 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, CareWorks shall process the medical

payments directly on behalf of VRSA through access to an interface system it establishes to operate with VRSA's claims administration system. As compensation for paying medical claims and performing repricing services, CareWorks receives \$21.20 per bill and a 33% performance fee on gross savings (calculated as repricing savings divided by initial medical charges). The initial agreement was amended on July, 1, 2022 to reflect a term extension from July 1, 2022 through June 30, 2026 and the compensation was modified to \$18.35 per bill. Either party may terminate the agreement with 60 days prior written notice. For the 2021/2022 fiscal year, VRSA incurred \$169,226 in fees related to this agreement.

### Broker Services

Effective November 16, 2021, VRSA entered into a broker services agreement with Alliant Insurance Services, Inc. (Alliant). The agreement is for a three-year term and VRSA has the option to extend the agreement for two additional one-year periods. The agreement may be terminated by either party with 60 days prior written notice. 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 the 2021/2022 fiscal year, VRSA incurred \$325,000 in fees related to this agreement.

### Co-broker Services

Effective November 1, 2021, VRSA entered into a co-broker agreement with Southeast Series of Lockton Companies, LLC (Lockton). Per the agreement, Lockton will provide marketing services of insurance products and the facilitation of such policies. The initial term is for one-year and automatically renews for annual terms thereafter. The Agreement may be terminated by either party with a 30 day prior written notice. For these services, VRSA agrees to compensate Lockton fifty percent of the gross commission income and/or fees plus any unearned commissions for cancelled policies, reduced premiums, or uncollectible premiums at the same rate at which the commissions were originally paid. The terms of the agreement take effect beginning with the 2022/2023 fiscal year. For the 2021/2022 fiscal year, VRSA incurred no fees related to this agreement.

### Triage Services

Effective April 13, 2018, VRSA entered into a service agreement with S1 Medical, LLC, (S1 Medical). Per the agreement, S1 Medical will provide members with an on call registered nurse and intake specialists to perform various telehealth functions. The initial term of the agreement is for three years and auto renews annually for an additional five-year period. Either party may terminate the agreement with 60 days prior written notice.



VRSA agrees to pay \$80 per incident, \$18 for first notice of loss per incident, plus any applicable translation fees at a rate of \$2 per minute for each call in excess of the 40 no cost translation calls granted per member annually. Spanish translators are exempt and incur no fee for service with no call limits. For the 2021/2022 fiscal year, VRSA incurred \$213,994 in 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 VRSA has received acknowledgement from the Bureau. During the examination period, no dividends were acknowledged by the Bureau.

**SPECIAL RESERVES AND DEPOSITS**

At June 30, 2022, VRSA 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**

VRSA had reinsurance coverage in force at June 30, 2022 as set forth in the following schedules:

<b><u>Class of Business</u></b>	<b><u>VRSA'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 VRSA's retention, subject to various annual aggregate limits

Each VRSA member has the option of increasing its liability coverages to a higher limit than the basic \$1,000,000 limit offered by VRSA. 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 VRSA.

<u>Class of Business</u>	<u>VRSA's Retention</u>	<u>Reinsurer's Limits</u>
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 windstorm and flood occurrence retention is \$1,000,000.	\$500,000,000 per occurrence: all perils, coverages and members combined, subject to various sub-limits.
Auto Physical Damage	First \$1,000,000 on all off-premises exposures and \$150,000 per vehicle-comprehensive/collision.	Replacement cost basis per member's schedule of insured vehicles with purchase cost \$75,000 or greater.

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

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

For Boiler & Machinery business, VRSA's retention limit on insured equipment varies between \$100,000 and \$450,000 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 VRSA as of June 30, 2022, a statement of revenue and expenses for the fiscal year ended June 30, 2022, 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, 2022.

**BALANCE SHEET**  
**JUNE 30, 2022**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$24,237,275
Investments	42,130,234
Accounts and contributions receivable	527,679
Accrued interest receivable	1,347,949
Reinsurance receivable	5,607,611
Prepaid expenses	826,101
Total current assets	<u>\$74,676,849</u>
Noncurrent assets:	
Property and equipment	
Building and improvements	\$4,808,593
Furniture and equipment	2,308,958
Less accumulated depreciation	<u>(3,173,000)</u>
	\$3,944,551
Investments	270,386,248
Restricted deposit	<u>160,000</u>
Total noncurrent assets	<u>\$274,490,799</u>
Total assets	<u><u>\$349,167,648</u></u>

**LIABILITIES AND EQUITY**

Current liabilities:	
Liability for unpaid losses, net	\$29,949,803
Contributions collected in advance	3,370,875
Reinsurance payable	12,446
Other liabilities	1,811,486
Total current liabilities	<u>\$35,144,610</u>
Noncurrent liabilities:	
Liability for unpaid losses, net	209,548,222
Total liabilities	<u>\$244,692,832</u>
Equity:	
Net investment in capital assets	\$3,944,551
Unrestricted equity	79,817,169
Restricted equity	20,713,096
Total equity	<u>\$104,474,816</u>
Total liabilities and equity	<u><u>\$349,167,648</u></u>

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2022**

Operating revenues:	
Member contributions	\$62,803,699
Miscellaneous income, net	<u>301,631</u>
Total operating revenues	<u>\$63,105,330</u>
Operating expenses:	
Provision for losses and loss adjustment expenses	\$47,797,515
Program administration fees	12,463,344
Reinsurance premiums	<u>12,354,288</u>
Total operating expenses	<u>\$72,615,147</u>
Operating loss	<u>(\$9,509,817)</u>
Non-operating revenues:	
Investment income	\$7,645,007
Net increase (decrease) in fair value of investments	<u>(35,212,149)</u>
Total non-operating revenues	<u>(\$27,567,142)</u>
Non-operating expenses	<u>692,923</u>
Non-operating income, net	<u>(\$28,260,065)</u>
Change in equity	<u>(\$37,769,882)</u>
Equity at beginning of year	<u>142,244,698</u>
Equity at end of year	<u><u>\$104,474,816</u></u>

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

	<u>2017/2018</u>	<u>2018/2019</u>	<u>2019/2020</u>	<u>2020/2021</u>	<u>2021/2022</u>
Members' Equity, beginning of fiscal year	<u>\$107,866,459</u>	<u>\$102,418,687</u>	<u>\$121,374,060</u>	<u>\$139,918,170</u>	<u>\$142,244,698</u>
Excess of revenues over expenses	<u>(5,447,772)</u>	<u>18,955,373</u>	<u>18,544,110</u>	<u>2,326,528</u>	<u>(37,769,882)</u>
Members' Equity, end of fiscal year	<u><u>\$102,418,687</u></u>	<u><u>\$121,374,060</u></u>	<u><u>\$139,918,170</u></u>	<u><u>\$142,244,698</u></u>	<u><u>\$104,474,816</u></u>

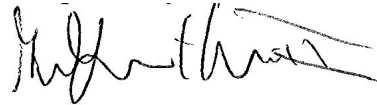
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2022**

Cash flows from operating activities:	
Receipts from members	\$65,473,245
Payments for reinsurance premiums	(12,419,437)
Receipts from reinsured claims	14,456,964
Payments for claims and adjustment expenses	(44,079,792)
Receipts from miscellaneous income, net	301,631
Payments for administrative and general expenses	<u>(12,639,362)</u>
Net cash provided by operating activities	\$11,093,249
Cash flows from noncapital financing activities:	
Payments for miscellaneous income	<u>(273,413)</u>
Net cash provided by noncapital financing activities	(\$273,413)
Cash flows from investing activities:	
Proceeds from calls and maturities of investments	\$75,448,378
Purchases of investments	(87,842,446)
Investment income	<u>7,168,864</u>
Net cash used for investing activities	<u>(\$5,225,204)</u>
Net increase (decrease) in cash and cash equivalents	\$5,594,632
Cash and cash equivalents:	
Beginning of year	<u>18,642,643</u>
End of year	<u><u>\$24,237,275</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	(\$9,509,817)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	540,462
Provision for losses	17,345,836
Changes in assets and liabilities:	
Accounts and contributions receivable	546,384
Reinsurance recoverable	828,851
Prepaid expenses	(746,256)
Contributions collected in advance	2,123,162
Reinsurance payable	(65,149)
Other liabilities	<u>29,776</u>
Net cash provided by operating activities	<u><u>\$11,093,249</u></u>

**ACKNOWLEDGMENT**

The courteous cooperation extended by VRSA's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Chris Collins, CFE, and Alyssa Marinoble 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 fluid and cursive, with a long horizontal stroke at the end.

Gerald T. Hicks II, AFE  
Senior Insurance Examiner





# VRSA

Virginia Risk Sharing Association

June 5, 2023

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

RE: Virginia Risk Sharing Association Examination Report as of June 30, 2022

Dear Mr. Smith,

Pursuant to your correspondence as of June 5, 2023, please accept this as acknowledgement of receipt of the aforementioned report.

We would appreciate three (3) copies of the final report.

Sincerely,

A handwritten signature in blue ink, reading "Joshua S Farrar". The signature is fluid and cursive, with a large initial "J" and "F".

Joshua S Farrar.  
Chair, Members' Supervisory Board  
Virginia Risk Sharing Association