

Examination Report
on
VIRGINIA PROPERTY INSURANCE ASSOCIATION
as of
September 30, 2020

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, 2020, 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 16th day of June 2021

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
April 29, 2021

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

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-2710 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, 2017. This examination covers the three-year period from October 1, 2017, through September 30, 2020.

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, 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 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, 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, 2020, the members of 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
 Donegal Insurance Group
 Nationwide Mutual Insurance Company
 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
 Jarrad West
 Kelly Reisling
 Conleth Kennedy
 Noland Deas
 Betty Woolridge
 Matt Gannon
 Sam Rooks
 Corise Morrison
 Michael Donovan
 Shane Badon
 Douglas S. Favre
 Carla J. Marks
 Larry Halterman
 James Stacia

Officers

Sam Rooks
 David Bonenfant
 Susan Tinsley

Chairman
 Vice Chairman
 Secretary and General 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 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 in June of 2016. 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, 2020:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Members' Equity (Deficit)</u>
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
2018	34,775,531	16,011,360	18,764,171
2019	35,575,414	14,490,786	21,084,628
2020	36,492,375	15,042,259	21,450,116

<u>Year</u>	<u>Premiums Earned</u>	<u>Incurred Losses</u>	<u>Loss Ratio</u>	<u>Net Income Or (Loss)</u>
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
2018	17,268,415	10,915,201	63.2%	819,906
2019	17,056,498	8,388,658	49.2%	3,638,322
2020	16,430,822	9,990,194	60.8%	1,159,374

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

	<u>Fiscal Years</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net premiums written	\$17,268,415	\$17,056,498	\$16,430,822
Losses paid	\$10,915,201	\$8,388,658	\$9,990,194
Ratio of losses paid to net premiums written	63.2%	49.2%	60.8%
Loss expenses paid	\$1,523,431	\$1,254,652	\$1,460,380
Ratio of loss expenses paid to net premiums written	8.8%	7.4%	8.9%
General operating expenses	\$2,046,352	\$2,066,340	\$2,196,465
Ratio of general expenses to net premiums written	11.9%	12.1%	13.4%
Commission expenses	\$1,837,772	\$1,800,097	\$1,703,605
Ratio of commission expenses to net premiums written	10.6%	10.6%	10.4%

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 \$27,000,000 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, 2020, a statement of operations for the fiscal year ending September 30, 2020, a statement of Members' equity for the period under review, a statement of cash flow for the fiscal year ending September 30, 2020, and a statement of Members' account by policy year as of September 30, 2020. 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	\$7,541,974
Bonds and other debt instruments	28,268,792
Premiums receivable	589,909
Investment income due and accrued	91,700
	<hr/>
Total assets	<u><u>\$36,492,375</u></u>

LIABILITIES AND MEMBERS' EQUITY

Reserve for losses and loss adjustment expenses	\$4,011,472
Unearned premiums	8,777,071
Premiums collected in advance	640,118
Premium taxes payable	569,528
Accounts payable and other liabilities	317,418
Accrued post-retirement benefits	726,652
	<hr/>
Total liabilities	\$15,042,259
Members' equity	21,450,116
	<hr/>
Total liabilities and members' equity	<u><u>\$36,492,375</u></u>

STATEMENT OF OPERATIONS
FISCAL-YEAR ENDED SEPTEMBER 30, 2020

Premiums earned	<u>\$16,430,822</u>
Losses	<u>\$9,990,194</u>
Loss adjustment expenses (including \$586,850 allocated from general operating expenses)	<u>\$1,460,380</u>
Underwriting expenses:	
Commissions	\$1,703,605
General operating expenses	2,196,465
Premium taxes	<u>569,011</u>
Total underwriting expenses	<u>\$4,469,081</u>
Underwriting income	\$511,167
Investment income	<u>648,207</u>
Net income	<u><u>\$1,159,374</u></u>

STATEMENT OF MEMBERS' EQUITY
FOR PERIOD UNDER REVIEW

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
	<u> </u>	<u> </u>	<u> </u>
Members' equity, beginning of year	\$19,487,673	\$18,764,171	\$21,084,628
Net income	819,906	3,638,322	1,159,374
Change in accrued post-retirement benefit obligation	2,950	(31,855)	(697,039)
Change in nonadmitted assets	<u>(1,546,358)</u>	<u>(1,286,010)</u>	<u>(96,847)</u>
Members' equity, end of year	<u><u>\$18,764,171</u></u>	<u><u>\$21,084,628</u></u>	<u><u>\$21,450,116</u></u>

STATEMENT OF CASH FLOW

Cash Flows From Operations Activities

Net income	\$1,159,374
Adjustments to reconcile net income to net cash provide by operating activities:	
Depreciation expense on nonadmitted property and equipment	11,117
Amortization of bond discount	(31,447)
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Premiums receivable	(403,885)
Investment income due and accrued	46,138
(Decrease) increase in liabilities:	
Reserve for losses and loss adjustment expenses	1,303,295
Unearned premiums	(577,137)
Premiums collected in advance	(266,027)
Premium taxes payable	(32,546)
Accounts payable and other liabilities	51,629
Accrued post-retirement benefits	(24,588)
Net cash provided by operating activities	\$1,235,923

Cash Flows From Investing Activities

Proceeds from investments sold, matured, or repaid	\$18,925,000
Purchases of investments	(15,752,905)
Net cash used in investing activities	\$3,172,095

Cash Flows From Financing Activities

(Increase) decrease in nonadmitted assets, net of depreciation expense	(708,156)
Net cash used in financing activities	(\$708,156)

Net change in cash and cash equivalents	\$3,699,862
Cash and cash equivalents, beginning of year	3,842,112
Cash and cash equivalents, end of year	\$7,541,974

MEMBERS' ACCOUNT BY POLICY YEAR INCEPTION TO DATE
SEPTEMBER 30, 2020

Description	1968-2015	2016	2017	2018	2019	2020	TOTAL
Premiums written	\$325,769,970	\$18,633,291	\$17,698,741	\$17,032,910	\$18,157,106	\$16,357,056	\$413,649,074
Unearned premiums	0	0	0	0	0	8,777,071	8,777,071
Earned Premiums	\$325,769,970	\$18,633,291	\$17,698,741	\$17,032,910	\$18,157,106	\$7,579,985	\$404,872,003
Losses paid	\$187,863,234	\$8,493,641	\$8,435,188	\$11,499,477	\$7,774,497	\$2,873,856	\$226,939,893
Unpaid losses	0	0	0	173,693	1,564,037	1,688,901	3,426,631
Incurred Losses	\$187,863,234	\$8,493,641	\$8,435,188	\$11,673,170	\$9,338,534	\$4,562,757	\$230,366,524
Allocated loss adjustment expenses paid	\$27,569,504	\$1,364,722	\$1,320,457	\$1,507,805	\$1,187,432	\$889,929	\$33,839,849
Unpaid allocated loss adjustment expenses	0	0	0	16,070	144,705	424,066	584,841
Incurred Loss Adjustment Expenses	\$27,569,504	\$1,364,722	\$1,320,457	\$1,523,875	\$1,332,137	\$1,313,995	\$34,424,690
Operating expense fund	\$51,361,814	\$1,882,323	\$2,089,393	\$2,054,836	\$2,089,000	\$2,129,762	\$61,607,128
Commission expenses	32,904,346	1,994,736	1,898,424	1,829,841	1,807,957	1,611,534	42,046,838
Member expenses	817,245	0	0	0	0	0	817,245
Premium taxes	10,101,416	695,862	663,196	634,486	613,901	601,557	13,310,418
Unpaid expenses	0	0	0	0	0	965,066	965,066
Commissions payable	0	0	(7)	0	(1,883)	142,128	140,238
Premium taxes payable	0	(4)	10	(29)	(16,715)	586,265	569,527
Underwriting Expense Incurred	\$95,184,821	\$4,572,917	\$4,651,016	\$4,519,134	\$4,492,260	\$6,036,312	\$119,456,460
Underwriting Gain (Loss)	\$15,152,411	\$4,202,011	\$3,292,080	(\$683,269)	\$2,994,175	(\$4,333,079)	\$20,624,329
Investment income received	\$9,010,815	\$41,182	\$52,541	\$474,704	\$686,218	\$648,207	\$10,913,667
Miscellaneous income received	38,276	0	0	13,351	6,926	0	58,553
Investment Gain	\$9,049,091	\$41,182	\$52,541	\$488,055	\$693,144	\$648,207	\$10,972,220
Members Equity (Deficit):							
Net increase/(decrease)	\$24,201,502	\$4,243,193	\$3,344,621	(\$195,214)	\$3,687,319	(\$3,684,872)	\$31,596,549
Operational assessment	7,903,062	0	0	0	0	0	7,903,062
Closing adjustments	2,070,982	18,423,443	0	0	329	283,905	20,778,659
Assessments (distributions)	(34,352,543)	0	0	0	0	0	(34,352,543)
Less non-admitted assets	(176,997)	117	1,177,038	1,143,874	1,301,794	1,029,785	4,475,611
Members Equity (Deficit)	\$0	\$22,666,519	\$2,167,583	(\$1,339,088)	\$2,385,854	(\$4,430,752)	\$21,450,116

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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, and T. Bradford Earley, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

Mario A Cuellar

Mario A Cuellar, CFE
Senior Insurance Examiner



June 15, 2021

David H. Smith, CFE, CPCU
Chief Examiner
P.O. Box 1157
Richmond, VA 23218

RE: Examination Report as of September 30, 2020

Dear Mr. Smith,

This letter is to acknowledge receipt of the examination report for Virginia Property Insurance Association as of September 30, 2020.

If you have any questions, please feel free to contact me at the phone number indicated below.

Sincerely,

Susan Tinsley, CPCU, AIC
General Manager
804 591 3712