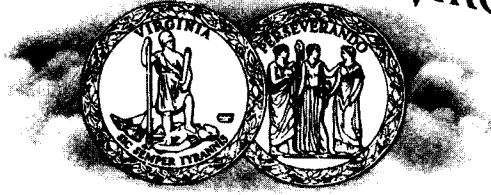


EXAMINATION REPORT
of
BUILDING INDUSTRY INSURANCE ASSOCIATION, INC.
Chesapeake, Virginia
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Building Industry Insurance Association, Inc. as of December 31, 2009, 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 6th day of December, 2010

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
August 23, 2010

Honorable Alfred W. Gross
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.

Chesapeake, Virginia,

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

DESCRIPTION

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. This is the first examination of the Company by representatives of the State Corporation Commission's Bureau of Insurance (Bureau). This examination covers the period from December 1, 2007 through December 31, 2009.

HISTORY

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, 2009. As part of the initial capitalization, the Association's parent company, Tidewater Builders Association (TBA), infused \$2,000,000 in cash, which increased the Association's capital stock from \$260,000 to \$1,000,000 and the paid in surplus from \$390,000 to \$1,650,000.

On January 7, 2009, Builders Insurance Association, Inc. (BIAI), a risk retention group domiciled in South Carolina, merged with the Association. For reporting purposes, the Association obtained approval from both the Virginia and South Carolina insurance

departments to include the 2008 activity of BIAI in the Association's 2008 statutory filing as though the merger had occurred during 2008.

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.

According to its Articles of Incorporation, the Association was formed for the following purpose:

to engage in the business of an insurance company as provided in Title 13.1-620 of the Code and to undertake and issue the following classes of insurance: Worker's Compensation, Home Protection, and Excess Liability (on a scheduled excess basis only, which shall include without limitation personal injury, bodily injury, contract liability and property damage liability insurance).

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, 2009, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Samuel L. Cohen	Builder/Developer Joey Corporation Chesapeake, Virginia
Dennis M. Graf	Builder/Developer Graf Construction Chesapeake, Virginia
William H. Halprin	Real Estate R.L. Nusbaum Realty Co. Norfolk, Virginia
James E. Jackson	President Superior Equipment Sales, Inc. Chesapeake, Virginia
Pete A. Kotarides	Builder/Developer Kotarides Builders Virginia Beach, Virginia
Steven E. Lawson	Chief Executive Officer and President The Lawson Companies Virginia Beach, Virginia
Charles J. Miller, II	Builder/Developer Miller Custom Homes Virginia Beach, Virginia

John F. Schoch, Jr.

President
J.F. Shoch
Virginia Beach, Virginia

Officers

William H. Halprin

President

Charles J. Miller, II

First Vice President

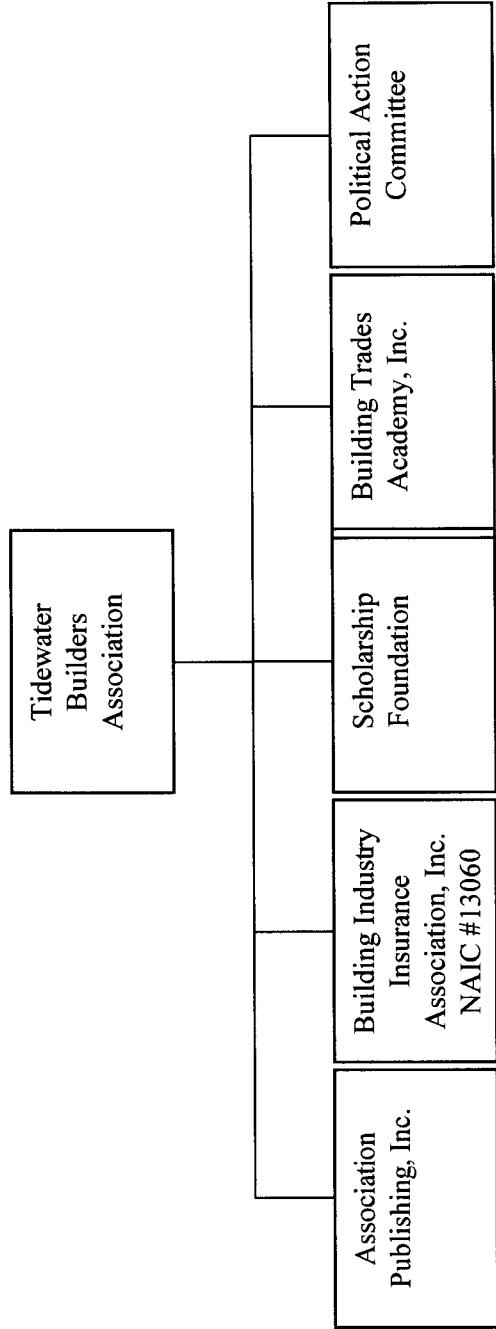
John F. Schoch, Jr.

Secretary

Samuel L. Cohen

Treasurer

All of the Association's outstanding shares of are held by Tidewater Builders Association, Inc. (TBA). The following chart shows the Association's relationship to its parent and affiliates:



RELATED PARTY TRANSACTIONS

Management Agreements

The Association entered into a management agreement with its parent, TBA. The agreement provides that for a predetermined fee, TBA will provide the following services: accounting services, building maintenance, computer services, management and administrative services, salaries, health benefits and various other services. In addition, certain portions of the Association's salaries are allocated back to TBA. The fees pursuant to the agreement were \$57,900 for 2007, \$224,000 for 2008 and \$99,000 for 2009.

The Association entered into a management agreement with an affiliate, Association Publishing, Inc. (API). The agreement provides that for a predetermined fee, API will provide the following services: utilities, cleaning, insurance, maintenance, personal property taxes, public relations, computer, postage and telephone. The management fee, as stated in the agreements, was \$44,911 for 2007, \$62,320 for 2008 and \$107,076 for 2009.

OFFICERS AND EMPLOYEES' WELFARE AND PENSION PLANS

The Association's employees are covered under API's defined contribution profit sharing retirement plan, which is fully funded by the participating corporations. Contributions to the retirement plan are discretionary and the Association elected to contribute \$46,898 in 2007, \$95,900 in 2008 and \$96,000 in 2009.

On January 1, 1992, the retirement plan was amended to include a 401(k) option that allowed employees to contribute up to 15% of their compensation on a pre-tax basis and also allowed the Association the discretionary option to match the employees' contribution. The plan also allowed the Association to make a discretionary profit sharing contribution that was not limited by the Association's net profits. This contribution was to be allocated on an integrated level of 80.01% of the Taxable Wage Base.

On January 1, 2002, the retirement plan was amended to allow 401(k) deferrals up to the maximum percentage allowed by law. It also allowed total participant-directed investments and Frontier Trust Company was named as Trustee of the plan.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Association was listed as a named insured on a \$500,000 fidelity bond, subject to a \$1,000 deductible. The Association also had directors and officers coverage of \$2,000,000 in the aggregate each policy year. This coverage is subject to a \$25,000 retention on each claim. The Association is also a named insured under commercial property, commercial general liability, commercial umbrella, workers compensation and employers liability, and business auto policies as of December 31, 2009.

TERRITORY AND PLAN OF OPERATION

The Association confines its operations to insuring Virginia domiciled companies where it is licensed as a property and casualty insurer under Chapter 10 of Title 38.2 of the Code of Virginia. As of December 31, 2009, the Association is licensed to write the following lines of business:

Home Protection Liability	Liability Other Than Automobile Workers Compensation and Employers Liability
------------------------------	---

The Association currently issues workers compensation and employers liability and general liability policies only. The Association ceased writing new home protection policies on October 15, 2009 (with few exceptions) but continues to service the policies currently in force. Plans are underway to write multi-peril and builders risk policies during 2010.

General Liability policy rules, forms and loss costs are filed by 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 \$1,500 which includes a policy fee of \$150 charged to all policies.

Likewise, forms and loss costs for workers compensation & employers liability are filed by NCCI on behalf of the Association and loss cost factors and exceptions to rules and forms are filed by BIIA and approved by the Bureau. The Association charges an expense constant of \$240 and a minimum premium of \$990 inclusive of the expense constant.

The Association's employees process all claims.

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 for ten year period ending December 31, 2009:

<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>
2007	\$9,146,537	\$4,246,891	\$1,000,000	\$1,650,000	\$2,249,646
2008*	19,929,926	13,152,965	1,000,000	2,150,000	3,626,961
2009	18,203,232	9,059,063	1,000,000	7,666,449	477,720

<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>
2007	\$674,554	\$140,972	\$495,276	\$38,306
2008*	4,605,324	2,549,171	2,713,723	(657,570)
2009	4,041,704	725,419	1,449,339	1,866,946

*As a result of the merger of BIA into the Association, the 2009 Annual Statement prior year columns for 2008 were adjusted to include the merged amounts.

REINSURANCE

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Association's Retention</u>	<u>Reinsurers' Limits</u>
Facultative Excess of Loss	Workers Compensation and Employer's Liability	<u>Part One:</u> \$500,000 each accident; \$500,000 each employee for disease	100% of statutory excess of \$500,000 each accident and employee for disease
		<u>Part Two:</u> Bodily injury by accident: \$500,000 each accident	\$1,000,000 excess of \$500,000 each accident
		Bodily Injury by Disease: \$500,000 policy limit	\$1,000,000 excess of \$500,000 policy limit
Excess of Loss	General Liability	Bodily injury by disease: \$500,000 each employee	\$1,000,000 excess of \$500,000 each employee
		\$200,000 ultimate net loss, each insured, each loss occurrence	100% of the ultimate net loss in excess of \$200,000, each insured, each loss occurrence; reinsurers' liability shall never exceed \$800,000 ultimate net loss, each insured, each loss occurrence

For home protection policies effective January 1, 2005 and thereafter, the Association elected to self-insure all risks and not cede any risk pursuant to a reinsurance agreement. In order to comply with the limitation per risk as prescribed by § 38.2-208 of the Code of Virginia, the amount of coverage provided under such new policies was \$200,000. Prior to January 1, 2005, the coverage provided was \$250,000.

For the home protection policies written during the period prior to January 1, 2005 the Association had reinsurance agreements through individual agreements covering corresponding ten-year periods.

The agreements effective January 1, 2002 and January 1, 2003 were with a reinsurer that was not licensed or accredited in Virginia, nor were the reinsurance credits collateralized pursuant to Code of Virginia § 38.2-1316.4 2. Therefore, as of December 31, 2009, the Association reported a provision for reinsurance of \$29,436. This amount is being amortized over the period of the coverage provided under these agreements.

The Association ceased writing new home protection policies on October 15, 2009.

SCOPE

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 examination covers the period from January 1, 2007 through December 31, 2009. Assets were verified and liabilities established at December 31, 2009.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association, assess corporate governance, identify and assess inherent risks within the Association, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

The services of Oliver Wyman Actuarial Consulting, Inc. were engaged pursuant to the provisions of Code of Virginia § 38.2-1318 E. This engagement was made to provide an actuarial report as to the reasonableness of the Association's total loss and loss adjustment expense reserves as of December 31, 2009.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2009, a statement of income for the period ending December 31, 2009, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$7,309,117		\$7,309,117
Common stocks	793,845		793,845
Cash and short-term investments	6,111,226		6,111,226
Investment income due and accrued	105,973		105,973
Uncollected premiums and agents' balances in the course of collection	1,096,542	378,437	718,105
Amounts recoverable from reinsurers	410,193		410,193
Other amounts receivable under reinsurance contracts	604,067		604,067
Federal income tax recoverable			
Net deferred tax asset	596,990	239,970	357,020
Electronic data processing equipment and software	164,156		164,156
Furniture and equipment	590	590	
Receivable from parent, subsidiaries and affiliates	139,049	96,563	42,486
Aggregate write-ins for other than invested assets	1,636,762	49,718	1,587,044
Totals	<u>\$18,968,510</u>	<u>\$765,278</u>	<u>\$18,203,232</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$3,734,000
Loss adjustment expenses		410,000
Commissions payable, contingent commissions and other similar charges		2,604
Other expenses		484,465
Taxes, licenses and fees		99,332
Unearned premiums		3,872,617
Dividends declared and unpaid		34,646
Ceded reinsurance premiums payable		47,090
Amounts withheld or retained by company for account of others		100,165
Provision for reinsurance		29,436
Payable to parent, subsidiaries and affiliates		9,913
Aggregate write-ins for liabilities		<u>234,795</u>
 Total liabilities		 \$9,059,063
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	7,666,449	
Unassigned funds (surplus)	<u>477,720</u>	
 Surplus as regards policyholders		 <u>9,144,169</u>
 Totals		 <u><u>\$18,203,232</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$4,041,704</u>
Deductions:	
Losses incurred	\$612,001
Loss expenses incurred	113,418
Other underwriting expenses incurred	2,681,282
Aggregate write-ins for underwriting deductions	<u>(1,231,943)</u>
Total underwriting deductions	<u>\$2,174,758</u>
Net underwriting gain	<u>\$1,866,946</u>

INVESTMENT INCOME

Net investment income earned	\$209,100
Net realized capital gains	<u>39,996</u>
Net investment gain	<u>\$249,096</u>

OTHER INCOME

Finance and service charges not included in premiums	\$10,412
Aggregate write-ins for miscellaneous income	<u>1,337,273</u>
Total other income	<u>\$1,347,685</u>
Net income before federal income taxes	\$3,463,727
Federal income taxes incurred	<u>(943,369)</u>
Net income	<u><u>\$4,407,096</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus as regards policyholders, December 31, previous year	<u>\$2,555,901</u>	<u>\$4,899,646</u>	<u>\$6,776,961</u>
Net income	\$217,037	\$131,149	\$4,407,096
Change in net unrealized capital gains or (losses)	14,715	(400,159)	223,331
Change in net deferred income tax			
Change in nonadmitted assets	121,617	(27,833)	(556,528)
Change in provision for reinsurance	25,327	25,327	25,327
Paid in capital changes	740,000		
Surplus adjustments:			
Paid in	1,260,000		5,098,989
Transferred from capital			(24,627)
Dividends to stockholders			(7,002,646)
Aggregate write-ins for gains and losses in surplus	(34,951)	360,107	196,266
Adjustment due to merger with BIA		<u>1,788,724</u>	
Change in surplus as regards policyholders for the year	<u>\$2,343,745</u>	<u>\$1,877,315</u>	<u>\$2,367,208</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$4,899,646</u></u>	<u><u>\$6,776,961</u></u>	<u><u>\$9,144,169</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$3,628,809
Net investment income	322,162
Miscellaneous income	1,347,685
Total	<u>\$5,298,656</u>
Benefit and loss related payments	\$2,644,690
Commissions, expenses paid and aggregate write-ins for deductions	2,735,295
Dividends paid to policyholders	(34,646)
Federal income taxes paid	(754,085)
Total	<u>\$4,591,254</u>
Net cash from operations	<u>\$707,402</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$2,837,363
Stocks	166,561
Total investment proceeds	<u>\$3,003,924</u>
Cost of investments acquired (long-term only):	
Bonds	\$4,385,868
Stocks	218,517
Total investments acquired	<u>\$4,604,385</u>
Net cash from investments	<u>(\$1,600,461)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$5,507,289
Dividends to stockholders	(7,071,606)
Other cash provided	4,099,346
Net cash from financing and miscellaneous sources	<u>\$2,535,029</u>
Net change in cash and short-term investments	<u>\$1,641,970</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$4,469,256
End of year	6,111,226
Net change in cash and short-term investments	<u>\$1,641,970</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. During a review of the Association's Actuarial Opinion (Opinion) and the Actuarial Report (Report), the following items were noted:
 - A. The NAIC's *Annual Statement Instructions* (Instructions) state that the appointed actuary should be appointed by the Board or a committee of the Board by December 31 of the year for which the opinion is to be rendered. The Association changed actuaries in 2008 and the Examiners' review of the Board minutes did not indicate that the new actuary had been officially appointed by the Board for the years 2008 and 2009.
 - B. The Instructions also state that the Opinion and the Report must be presented to the Board each year. The Instructions also state that the minutes of the Board should indicate that such documents were presented or made available to the entire Board or the Audit Committee. The Examiners' review of the Board minutes did not indicate that such actions had been taken.

The Examiners recommend that the Association take the necessary steps to ensure that the appointed actuary is appointed by the Board or an appropriate committee of the Board each year and that the Opinion and Report are presented or made available to the Board.

2. During the Examiners' review of Information Systems, the following items were noted:
 - A. The Association did not have sufficient written policies or procedures to support the controls represented as being in place. The Examiners recommend the Association document the necessary policies and procedures to support the information systems controls.
 - B. The Association does not appear to be storing its backup tapes in a secure offsite location. The Examiners recommend that the Association store all backup tapes in an offsite location that protects the tapes against catastrophic events.
3. The Association did not execute agreements for services with its investment managers. Each of the agreements that currently exist is between Mid-Atlantic Insurance Corporation and the respective investment managers. The Association

should amend the existing agreements to include the Association or execute new agreements between the Association and the respective investment managers.

4. The Association introduced a new line of business and consequently converted to a new claims system in 2009. During the testing of claims, it was noted that certain claim information was entered in error when populating this new system. It was also revealed that the new system does not have system edits in place to help mitigate the risk of these errors. It does not appear that these informational errors had an impact on the reliability of the Association's reported loss reserves. However, the Examiners recommend that the Association review its claim files to ensure the information captured in the system is accurate. The Examiners also recommend that system edits be put into place to prevent these errors from happening in the future.

SUBSEQUENT EVENT

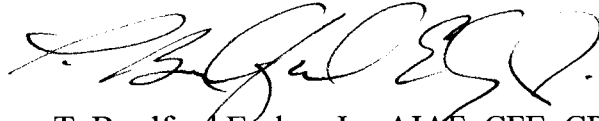
Effective April 16, 2010, the Association's Virginia license was amended to add the following lines of authority: fire, miscellaneous property and casualty, commercial multiple peril, ocean marine, inland marine, auto liability, auto physical damage, fidelity, surety, glass, burglary and theft, and boiler and machinery.

CONCLUSION

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. Crawley, CFE, Mario A. Cuellar, CFE, and Theresa C. Lewis, 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
Insurance Principal Financial Analyst



Building Industry Insurance Association Inc.

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www.vabuildersinsurance.com

November 23, 2010

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

STATE CORP COMMISSION
BUREAU OF INSURANCE
10 NOV 29 AM 10:12

Dear Mr. Smith:

Please find below our response to the Recommendations for Corrective Action contained in the Examination Report of Building Industry Insurance Association, Inc. (BIIA) as of December 31, 2009.

Management and Control

1.

Regarding the appointment of the actuary by the Board, we regret this fact was omitted from the minutes of the Association for the years 2008 and 2009. We addressed this issue at the Board meeting held on November 15, 2010, and re-appointed our current actuary for fiscal year 2010. As required, this fact will be so stated in the minutes from the meeting.

In addition, the Association will insure the Actuarial Opinion for fiscal year 2010 will be presented to the BIIA Board at the meeting following receipt of the report and that the minutes of the meeting will reflect the fact that such documents were presented.

2.

BIIA has begun the process to upgrade the management information systems currently in place including the purchase of equipment and software that will take our Information Systems to the next level. Once all planned enhancements are complete, the Association will document all the necessary policies and procedures to support the information systems controls. The completion date for all changes, revisions and documentation is anticipated to be December 31, 2010.

As part of the enhancements to the Information Systems, the Association is moving away from the use of backup tapes and the subsequent storage thereof by converting to Cloud Storage. A Barracuda backup server and Barracuda instant replacement software has been purchased which will allow secure offsite storage of the Association's IT information at two different offsite locations across the country in the event of a major catastrophe. The Disaster Recovery Plan will be revised to document the steps necessary to have all systems back up and running with minimal time lost.

3.

On January 31, 2010, the Association's investment portfolio was taken over by a new investment manager and as a result, new agreements were executed in the name of BIIA.

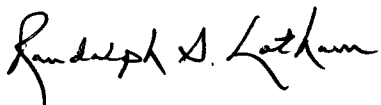
4.

Subsequent to finalization of the examination, the Association made changes to its existing software to insure information captured in the system is accurate. As a business rule, no payment will be saved which will cause a negative reserve. The reserve must be increased before the payment is applied. In addition, no claim can be closed unless the reserve is \$0 and no transactions can be processed on a closed claim.

The officers and staff of Building Industry Insurance Association appreciate the cooperation and support provided by the examination team while they were here. As always, they handled themselves in a most professional and courteous manner and were very helpful toward the correction and implementation of the above mentioned deficiencies.

If you have further questions or require additional information, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Randolph S. Latham". The signature is written in a cursive style with a large, stylized initial 'R'.

Randolph S. Latham
CFO