Examination Report
on
VIRGINIA PROPERTY INSURANCE ASSOCIATION
as of
September 30, 2008

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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

COMMONWEALTH OF VIRGINIA

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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 Virginia Property Insurance Association as of September 30, 2008, 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 7th day of May, 2009

Alfred W. Gross

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
February 3, 2009

Honorable Alfred W. Gross
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.

DESCRIPTION

The Association is a direct insurance association operating pursuant to Chapter 27 of Title 38.2 of the Code of Virginia. The Association was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of September 30, 2005. This examination covers the three-year period from October 1, 2005, through September 30, 2008.

HISTORY

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 January 1, 2008.

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, 2008, the members of the board of directors and officers were as follows:

Board of Directors

Member	Representative
State Farm Fire and Casualty	E. Wayne Roberts
Travelers Property Casualty Corp.	Benjamin S. Marshall
W. R. Berkley Corp. Mid Atlantic Group	Jeff E. Bouton
Allstate Insurance Company	Tom Mathes
Nationwide Mutual Insurance Company	Troy J. Crawford
Alfa Alliance Insurance Corporation	Ken Gee
Harleysville Insurance Companies	Kevin Glancy
Virginia Farm Bureau Mutual Insurance Company	Sam Rooks
USAA	Corise Morrison
Liberty Mutual Insurance Company	Brian Levy
Erie Insurance Group	Richard W. Corbin
Agent	Douglas S. Favre
Agent	W. Eugene Hayes
Public Representative	Larry L. Richardson
Public Representative	James Stacia

Officers

E. Wayne Roberts	Chairman
Benjamin S. Marshall	Vice Chairman
Leland M. Nye	Secretary and Manager of the Association

FIDELITY BOND AND OTHER INSURANCE

At September 30, 2008, the Association had $120,000 of fidelity coverage in force, with a deductible of $1,200. The Association also had the following insurance coverages in effect at September 30, 2008: employee theft and forgery, commercial protector, commercial auto, commercial umbrella liability, workers compensation, and employment practices liability.

OFFICERS' AND EMPLOYEES' WELFARE AND PENSION PLAN

The Association pays for the cost of the employees' pension plan, life insurance and disability income coverage. In addition, the Association pays 80% of the costs of the dental plans and 80% of the medical plans for the employees and their dependents. The Association also has an employee savings plan to which the Association contributes an additional amount equal to 100% of the employees' basic contributions, up to a maximum of 6% of each employee's salary.

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 January, 2008. 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, 2008:

Year	Assets	Liabilities	Members' Equity (Deficit)
1999	$5,363,956	$4,900,589	$463,367
2000	4,950,236	4,500,770	449,466
2001	5,655,547	4,811,162	844,385
2002	8,590,770	7,215,239	1,375,531
2003	20,033,079	19,188,769	844,310
2004	15,598,502	13,104,385	2,494,117
2005	20,645,127	13,689,731	6,955,396
2006	25,910,314	14,596,158	11,314,156
2007	29,147,396	14,309,025	14,838,371
2008	30,829,907	13,841,504	16,988,403

Year	Premiums Earned	Incurred Losses	Loss Ratio	Net Income Or (Loss)
1999	$5,671,934	$2,829,811	49.9%	$985,253
2000	5,319,436	2,715,390	51.0%	760,706
2001	5,498,213	2,385,216	43.4%	1,184,365
2002	6,833,218	3,648,399	53.4%	357,291
2003	10,922,696	11,104,434	101.7%	(5,013,549)
2004	14,692,462	6,351,990	43.2%	2,926,854
2005	16,426,601	6,300,081	38.4%	5,096,031
2006	16,346,293	7,217,344	44.2%	4,542,904
2007	15,650,511	7,909,920	50.5%	3,535,500
2008	14,784,662	8,069,587	54.6%	2,088,042

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

	Fiscal Years		
	2006	2007	2008
Net premiums written	$16,423,687	$15,121,126	$14,636,488
Losses paid	$6,593,592	$7,998,987	$9,162,736
Ratio of losses paid to net premiums written	40.1%	52.9%	62.6%
Loss expenses paid	$998,230	$1,471,706	$1,400,212
Ratio of loss expenses paid to net premiums written	6.1%	9.7%	9.6%
General operating expenses	$2,167,251	$2,200,838	$2,055,461
Ratio of general expenses to net premiums written	13.2%	14.6%	14.0%
Commission expenses	$1,654,191	$1,576,182	$1,541,176
Ratio of commission expenses to net premiums written	10.1%	10.4%	10.5%

The above amounts were taken from the Association's financial reports to Member companies for each fiscal year ending September 30, 2008.

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 $25,000,000 in excess of the Association's retention of $5,000,000.

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 October 1, 2005, through September 30, 2008. Assets were verified and liabilities were established at September 30, 2008. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had medium or low risk assessment as determined from the principles of the risk-based examination approach contained in the National Association of Insurance Commissioners *Examiners' Handbook*. Analytical review procedures were applied to non-material items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report:

History
Management and Control
Association Records
Employees' Welfare and Pension Plans
Fidelity Bond and Other Insurance
Territory and Plan of Operation
Growth of the Association
Reinsurance
Accounts and Records
Contracts and Agreements
Financial Statements

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association as of September 30, 2008, a statement of operations for the fiscal year ending September 30, 2008, a statement of Members' equity for the period under review, a statement of cash flow for the fiscal year ending September 30, 2008, and a statement of Members' account by policy year as of September 30, 2008. 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	$200
Short-term investments	30,445,966
Premiums receivable	68,194
Investment income due and accrued	315,547
Total assets	$30,829,907

LIABILITIES AND MEMBERS' EQUITY

Excess of outstanding checks over bank balance	$1,067,053
Reserve for losses and loss adjustment expenses	2,742,477
Unearned premiums	8,115,311
Premiums collected in advance	645,735
Premium taxes payable	553,799
Accounts payable and other liabilities	155,807
Accrual for postretirement benefits	561,322
Total liabilities	$13,841,504
Members' equity	16,988,403
Total liabilities and members' equity	$30,829,907

STATEMENT OF OPERATIONS
FISCAL-YEAR ENDED SEPTEMBER 30, 2008

Premiums Earned	$14,784,662
Losses	$8,069,587
Loss adjustment expenses (including $406,595 and $429,249 allocatedfrom general operating expenses in 2008 and 2007, respectively)	$1,375,392
Underwriting expenses:	
Commissions	$1,531,284
General operating expenses	2,172,617
Premium taxes	533,718
Total underwriting expenses	$4,237,619
Underwriting income	$1,102,064
Investment income	985,978
Net income (loss)	$2,088,042

STATEMENT OF MEMBERS' EQUITY
FOR PERIOD UNDER REVIEW

	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Members' equity, beginning of year	$6,955,396	$11,314,156	$14,838,371
Net income	4,542,904	3,535,500	2,088,042
Prior period adjustment:			
Premium taxes		(15,514)	
Decrease (increase) in nonadmitted assets	(184,144)	4,229	61,990
Members' equity, end of year	$11,314,156	$14,838,371	$16,988,403

STATEMENT OF CASH FLOW

Cash Flows From Operations Activities	
Net income	$2,088,042
Adjustments to reconcile net income to net cash provide by operating activities:	
Depreciation expense on nonadmitted property and equipment	81,631
Accretion of discount on treasury bills	(196,619)
Unrealized loss on treasury notes	137,894
Realized loss on maturity of treasury notes	117,070
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Premiums receivable	118,942
Investment income due and accrued	(315,547)
(Decrease) increase in liabilities:	
Excess of outstanding checks over bank balance	562,585
Reserve for losses and loss adjustment expenses	(1,117,972)
Unearned premiums	(148,173)
Premiums collected in advance	98,089
Premium taxes payable	30,625
Accounts payable and other liabilities	78,340
Accrual for postretirement benefits	28,985
Net cash provided by operating activities	$1,563,892
Cash Flows From Investing Activities	
Purchases of treasury bills and notes	($52,541,573)
Sales or maturities of treasury bills and notes	51,000,000
Net (increase) decrease in money market mutual funds	(12,683)
Net cash used in investing activities	($1,554,256)
Cash Flows From Financing Activities	
Increase in nonadmitted assets	(19,641)
Net cash used in financing activities	($19,641)
Net change in cash and cash equivalents	($10,005)
Cash and cash equivalents, beginning of year	10,205
Cash and cash equivalents, end of year	$200

MEMBERS' ACCOUNT BY POLICY YEAR INCEPTION TO DATE
SEPTEMBER 30,2008

	FISCAL YEAR						
Description	1968-2003	2004	2005	2006	2007	2008	TOTAL
Premiums written	$133,648,230	$16,098,599	$16,388,750	$16,431,800	$15,248,787	$15,252,143	$213,068,309
Unearned premiums	0	0	0	0	0	8,115,311	8,115,311
Earned Premiums	**$133,648,230**	**$16,098,599**	**$16,388,750**	**$16,431,800**	**$15,248,787**	**$7,136,832**	**$204,952,998**
Losses paid	$83,980,387	$6,095,487	$6,491,359	$7,022,175	$8,123,332	$3,112,893	$114,825,633
Unpaid losses	0	0	263,237	53,077	135,914	1,975,731	2,427,959
Incurred Losses	**$83,980,387**	**$6,095,487**	**$6,754,596**	**$7,075,252**	**$8,259,246**	**$5,088,624**	**$117,253,592**
Allocated loss adjustment expenses paid	$11,450,231	$921,581	$888,269	$625,971	$1,554,827	$1,227,577	$16,668,456
Unpaid allocated loss adjustment expenses	0	0	25,144	5,069	12,982	271,321	314,516
Incurred Loss Adjustment Expenses	**$11,450,231**	**$921,581**	**$913,413**	**$631,040**	**$1,567,809**	**$1,498,898**	**$16,982,972**
Operating expense fund	$26,046,610	$2,015,613	$2,095,739	$2,167,251	$2,200,838	$2,055,462	$36,581,513
Commission expenses	12,572,524	1,592,933	1,627,800	1,648,124	1,586,601	1,463,998	20,491,980
Member expenses	817,245	0	0	0	0	0	817,245
Premium taxes	3,530,756	445,318	541,531	541,378	546,443	503,092	6,108,518
Unpaid expenses	0	0	0	0	0	605,281	605,281
Commissions payable	0	0	(4)	(100)	(1,681)	126,856	125,071
Premium taxes payable	0	0	8,270	7,242	4,126	534,159	553,797
Underwriting Expense Incurred	**$42,967,135**	**$4,053,864**	**$4,273,336**	**$4,363,895**	**$4,336,327**	**$5,288,848**	**$65,283,405**
Underwriting Gain (Loss)	**($4,749,523)**	**$5,027,667**	**$4,447,405**	**$4,361,613**	**$1,085,405**	**($4,739,538)**	**$5,433,029**
Investment income received	$4,520,751	$127,364	$393,966	$611,577	$1,312,320	$1,701,823	$8,667,801
Investment income accrued	0	0	0	0	0	(230,703)	(230,703)
Miscellaneous income received	30,733	82	870	247	5,907	(237)	37,602
Investment Gain	**$4,551,484**	**$127,446**	**$394,836**	**$611,824**	**$1,318,227**	**$1,470,883**	**$8,474,700**
Members Equity (Deficit):							
Net increase/(decrease)	($198,039)	$5,155,113	$4,842,241	$4,973,437	$2,403,632	($3,268,655)	$13,907,729
Operational assessment	4,903,350	0	0	0	0	0	4,903,350
Closing adjustments	(684,513)	3,170,941	122,799	0	0	0	2,609,227
Assessments (distributions)	(4,197,704)	0	0	0	0	0	(4,197,704)
Less non-admitted assets	(176,906)	0	130,951	24,305	71,431	184,418	234,199
Members Equity (Deficit)	**$0**	**$8,326,054**	**$4,834,089**	**$4,949,132**	**$2,332,201**	**($3,453,073)**	**$16,988,403**

CONCLUSION

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

In addition to the undersigned, Mario A. Cuellar, CFE, T. Bradford Earley, Jr., CFE, CPCU, AIAF, Gina M. Gainer, and Theresa C. Lewis, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

Jennifer K. Crawley, CFE
Senior Insurance Examiner

VIRGINIA
PROPERTY
INSURANCE
ASSOCIATION

April 20, 2009

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

Re: Examination Report – Period Ending 9/30/2008

Dear Mr. Smith:

Thank you for your letter dated April 10, 2009.

I have reviewed the report. It appears accurate as presented. The Association will need 18 copies of the examination report.

Please let me know if you need any additional information from the Association.

Sincerely,

Leland M. Nye, CPCU
General Manager & Secretary

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