

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

### ORDER

After full consideration and review of the report of the financial examination of Missouri Property Insurance Placement Facility for the period ended December 31, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, history, corporate records, management and control, territory and plan of operations, accounts and records, financial statements, comments on the financial statements, subsequent events and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Property Insurance Placement Facility as of December 31, 2016 be and is hereby ADOPTED as filed and for Missouri Property Insurance Placement Facility to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 24<sup>th</sup> day of May, 2018.



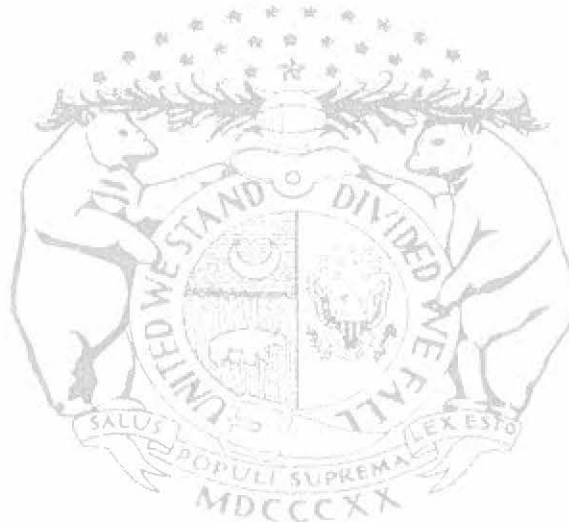
A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION  
**MISSOURI PROPERTY INSURANCE  
PLACEMENT FACILITY**

As of:  
DECEMBER 31, 2016

**FILED**  
JUN 04 2018  
DIRECTOR OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 5, 2018

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**Missouri Property Insurance Placement Facility**

hereinafter referred to as such or as the "FAIR Plan" or as the "Company". The Company's main office is located at 906 Olive Street, Suite 1000, Saint Louis, MO 63101; phone number (314) 421-0170. Examination fieldwork began on January 2, 2018, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The last examination of the FAIR Plan was completed as of December 31, 2011. This examination covers the period of January 1, 2012, through December 31, 2016. This examination also includes material transactions or events occurring subsequent to December 31, 2016.

**Procedures**

This examination was conducted as a full scope, single-state comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook "Handbook". The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company 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.

Because of the unique nature of FAIR Plan's operations, certain exam procedures were modified: significant Annual Statement line items were tested for accuracy and completeness; compliance with applicable statutes was verified; and, less emphasis was placed on testing controls. All accounts and activities of the Company 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. Key activities identified were: Investments, Claims Handling and Reserves, Premiums, Operations, Assessments, Taxes, and Capital and Surplus.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...), 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 in the examination report but separately communicated to other regulators or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There was one significant finding. The examination found the unearned premium (UEP) liability to have been materially overstated due to relying upon an erroneous report. Overstating the UEP liability resulted in Surplus being understated by approximately \$46,000 at year-end 2016.

## **HISTORY**

### **General**

The Company was created in response to the Federal Urban Property Protection Act of 1968. Beginning in May 1969, the Fair Access to Insurance Requirements "FAIR" Plan was formed and operated on a voluntary basis. Approximately 250 companies participated in the voluntary plan.

In October 1969, the 75<sup>th</sup> Session of the Missouri General Assembly established the Missouri Basic Property Insurance Inspection and Placement Program under which the FAIR Plan provides basic property insurance to persons who are unable to obtain such coverage through ordinary methods. A joint reinsurance association established in accordance with Section 379.835 RSMo (Joint reinsurance association) provides for the equitable distribution and placement of the risks insured by the FAIR Plan among property insurers providing habitational or commercial coverage in the state of Missouri.

FAIR Plan has expanded coverage and increased coverage limits multiple times over the course of its existence. In 2014, FAIR Plan was authorized to begin offering sinkhole coverage effective January 1, 2015.

### **Surplus**

FAIR Plan reports no capital accounts except Unassigned Funds. Because of its unique structure, FAIR Plan historically reports a negative surplus at year-end. For 2016, FAIR Plan reported surplus of \$(1.7) million.

## **CORPORATE RECORDS**

The Company's Plan of Operations was reviewed. The Plan of Operations was amended in 2014 to allow the Governing Committee to meet via electronic means. The Missouri Department of Insurance, Financial Institutions and Professional Registration "Department" approved this change.

The minutes of the annual meeting and of the Governing Committee meetings were reviewed. The minutes appeared to properly document corporate events and transactions.

## MANAGEMENT AND CONTROL

### Governing Committee

Management of the Company is vested in a Governing Committee consisting of thirteen members, subject to the supervision of the Department Director. Section 379.860 RSMo (Governing committee) stipulates the composition of the Governing Committee as follows:

American Insurance Association	2 members
National Association of Mutual Insurance Companies	1 member
Property Casualty Insurers Association of America	2 members
Missouri Insurance Coalition	1 member
All Other Stock Insurers	2 members
All Other Non-Stock Insurers	2 members
Missouri Insurers	1 member
Licensed Agents of an Insurer	2 members

The three members of the Governing Committee representing Missouri Insurers and Licensed Agents of an Insurer are appointed by the Director. The remaining ten members are elected by their respective organizations. Members serving at year-end 2016 were as follows:

<u>Affiliation</u>	<u>Company</u>
American Insurance Association	Hartford Insurance Company
American Insurance Association	AIG Property Casualty
Property Casualty Insurers Association of America	American Family Mutual Insurance Company
Property Casualty Insurers Association of America	Shelter Insurance Companies
National Association of Mutual Insurance Companies	Liberty Mutual Insurance Company
Missouri Insurance Coalition	Missouri Farm Bureau Insurance Services
All Other Stock Insurers	Allied Property & Casualty Insurance Company
All Other Stock Insurers	Cincinnati Insurance Company
All Other Non-Stock Insurers	State Farm Insurance Company
All Other Non-Stock Insurers	Lititz Mutual Insurance Company
Missouri Insurer	Cameron Mutual Insurance Company
Licensed Agent of an Insurer	Susan Clift
Licensed Agent of an Insurer	Christopher Trick

### Other Committees

Section 379.870 RSMo (Duties of the committee) requires the appointment of an underwriting committee to review with the program manager risks that have been submitted. The statute further allows the appointment of other committees as the Governing Committee deems fit. Committees established at year-end 2016 were as noted below. The Claims Committee had no Chair.

Underwriting Committee

State Farm Insurance Company, Chair  
American Family Mutual Insurance Company  
Cameron Mutual Insurance Company

Claims Committee

American Family Mutual Insurance Company  
Liberty Mutual Insurance Company  
Allied Property & Casualty Insurance Company

Executive Committee

American Family Mutual Insurance Company, Chair  
Lititz Mutual Insurance Company  
Christopher Trick

**Management**

Section 379.870 RSMo (Duties of the committee) empowers the Governing Committee to appoint a manager to budget expenses, levy assessments, disburse funds, and perform other duties necessary to properly administer the program. At year-end 2016, Kirk Schmidt was the General Manager and Controller; Victoria Byington was the Operations Manager.

**TERRITORY AND PLAN OF OPERATIONS**

Section 379.810 RSMo (Program established) established the Missouri Basic Property Insurance Inspection and Placement Program. FAIR Plan is not a licensed insurer nor does it hold a certificate of authority. FAIR Plan provides basic property insurance coverage on habitational and commercial risks within the state of Missouri. The limits of coverage provided by FAIR Plan are two hundred thousand dollars (\$200,000) for habitational coverage and one million dollars (\$1,000,000) for commercial coverage. Premiums are based on Insurance Service Office premium rates and are approved by the Department.

In 2015, FAIR Plan began offering sinkhole loss coverage in accordance with Section 379.827 RSMo (Sinkhole loss policies authorized). The coverage, which supplements an insured's primary coverage, is only available on habitational risks. Sinkhole loss coverage is limited to two hundred thousand dollars (\$200,000).

**ACCOUNTS AND RECORDS**

**General**

In November 1973, the Department prescribed that the financial statements be prepared to show the operation of the Company as a whole and not reflect the cession of business to the insurers participating in the syndicate. FAIR Plan has followed this prescribed practice; the Annual Statement is prepared as if FAIR Plan retained all business.

In 2014, FAIR Plan implemented a new policy and claims administration system: the Beyontec (formerly B2-USA) EZ-Insure system. All habitational and commercial policies, and related claims, are maintained in this system, which includes a general ledger function. The system is housed on a Dell VRTX Blade server.

In 2013, the Company began using an electronic document system, Laserfiche. FAIR Plan continues to rely upon Lotus and Excel spreadsheets for various applications. The Company contracts with a third party vendor, Sumner Group, to provide security and to monitor the operation of the Dell VRTX Blade hardware, firewall and switch. Sumner Group provides continuous monitoring of internet activity for intrusions.

**Independent Auditor**

The Company's statutory financial statements are audited annually by the public accounting firm Conner Ash P.C. The independent auditor's 2016 workpapers were reviewed and utilized in the examination to the extent deemed appropriate.

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, as reported and filed by the Company with the Department, present the financial condition of the Company at December 31, 2016, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement or comments regarding such are made in the "Comments on Financial Statements" which follow the financial statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to FAIR Plan and noted in the workpapers.



	<b>Assets</b>		
	Assets	Non- admitted	Net Admitted
Cash	\$ 854,538	\$ -	\$ 854,538
Uncollected Premiums	30,735	-	30,735
Deferred Premiums	105,876	-	105,876
EDP	12,189	-	12,189
Furniture and Equipment	13,860	13,860	-
Prepaid Expenses	34,844	34,844	-
<b>Total Assets</b>	<b><u>\$ 1,052,042</u></b>	<b><u>\$ 48,704</u></b>	<b><u>\$ 1,003,338</u></b>

<b>Liabilities and Surplus</b>	
Losses	\$ 397,445
LAE	104,898
Commissions Payable	12,711
Other Expenses	24,728
Taxes, Licenses and Fees	(7,592)
Unearned Premiums (Note 1)	1,016,019
Advance Premiums	27,060
Amounts Withheld for Others	73,573
Accumulated Post-Retirement Benefits	843,282
Accrued Pension Benefits	<u>220,908</u>
<b>Total Liabilities</b>	<b>2,713,032</b>
Unassigned Funds	<u>(1,709,694)</u>
Surplus as Regards Policyholders	<u>(1,709,694)</u>
<b>Total Liabilities and Surplus</b>	<b><u>\$ 1,003,338</u></b>

**Income Statement**

Premiums earned	\$ 2,153,485
Losses incurred	674,167
Loss expenses incurred	301,497
Other underwriting expenses incurred	<u>1,264,472</u>
Total underwriting deductions	2,240,136
Net underwriting loss	(86,651)
Net investment income earned	<u>1,735</u>
Net investment gain	1,735
Miscellaneous income	<u>22,903</u>
Net income	<u><u>\$ (62,013)</u></u>

**Reconciliation of Surplus**

Surplus as regards policyholders, December 31, 2015	\$ (1,670,625)
Net income	(62,013)
Change in nonadmitted assets	(4,398)
Net change in pension plan	<u>27,342</u>
Change in surplus as regards policyholders	(39,069)
Surplus as regards policyholders, December 31, 2016	<u><u>\$ (1,709,694)</u></u>

**Analysis of Changes to Surplus**

Surplus at December 31, 2016, per Annual Statement		\$ (1,709,694)
	<u>Increase</u>	<u>Decrease</u>
Unearned premiums (Note 1)		46,209
Net increase		<u>46,209</u>
Surplus at December 31, 2016, after adjustment		<u><u>\$ (1,663,485)</u></u>

## **COMMENTS ON FINANCIAL STATEMENTS**

NOTE 1: Unearned Premiums

(\$46,209)

During the course of our examination, FAIR Plan discovered that the unearned premium report for year-end 2016 contained errors. FAIR Plan corrected the errors and reran the report; the correct total was less than the total previously reported.

## **SUBSEQUENT EVENTS**

There were no events occurring after December 31, 2016, that would have had an impact upon the year-end financial statements.

## **SUMMARY OF RECOMMENDATIONS**

FAIR Plan should ensure that controls surrounding UEP reporting are sufficient to produce an accurate liability for financial reporting purposes.

## ACKNOWLEDGMENT

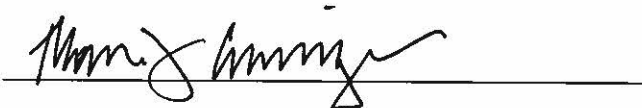
The assistance and cooperation extended by the officers and staff of the Missouri Property Insurance Placement Facility during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Andy Balas, CFE, AES, CPA; and, Doug Daniels, CFE, CPA, examiners for the Department, participated in this examination.

## VERIFICATION

State of Missouri )  
                          ) ss

County of St. Louis)

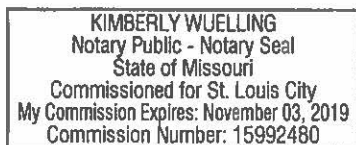
I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Thomas J. Cunningham, CFE,  
CPA Examiner-in-Charge  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration

Sworn to and subscribed before me this 19<sup>th</sup> day of March 2018

My commission expires: 11-03-2019



Notary Public 

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE  
Assistant Chief Financial Examiner, St. Louis  
Missouri Department of Insurance,  
Financial Institutions and Professional  
Registration