

**EXAMINATION REPORT
on the
VIRGINIA PROPERTY AND CASUALTY INSURANCE
GUARANTY ASSOCIATION
Boston, Massachusetts
as of
December 31, 2022**

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 the Virginia Property and Casualty Insurance Guaranty Association as of December 31, 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 12th day of December 2023

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
October 6, 2023

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

Dear Sir:

In accordance with your instructions and by authority of § 38.2-1612 of the Code of Virginia, an examination of the affairs and the income and expenses of the

**VIRGINIA PROPERTY AND CASUALTY INSURANCE
GUARANTY ASSOCIATION**
Boston, Massachusetts

hereinafter referred to as the Association. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The last examination of the Association was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2017. The current examination covers the five-year period from January 1, 2018 through December 31, 2022.

The 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's initial board of directors was appointed by the Commissioner of Insurance pursuant to § 38.1-762 of the Code of Virginia and held its first meeting on November 15, 1972. Subsequently, the plan of operation, as required by § 38.1-764, was submitted to the State Corporation Commission (Commission) which gave its approval on October 23, 1973. Amendments to the plan of operation were approved by the Commission on September 28, 1981, July 1, 1986, September 2, 1992, June 25, 1997, and October 20, 2022.

Since its organization, the Association has been involved in the insolvencies of the following companies:

<u>Company</u>	<u>Declared Insolvent</u>	<u>State of Domicile</u>
Professional Insurance Company	1974	New York
Summit Insurance Company	1975	New York
Consolidated Mutual Insurance Company	1978	New York
Reserve Insurance Company	1979	Illinois
Fauquier Home Mutual Fire Insurance Company	1981	Virginia
Proprietors Insurance Company	1981	Ohio
Security Casualty Insurance Company	1981	Illinois
Excalibur Insurance Company	1984	Texas
Aspen Indemnity Corporation	1984	Colorado
Ideal Mutual Insurance Company	1984	New York
Early American Insurance Company	1985	Alabama
Columbus Insurance Company	1985	Ohio
Eastern Indemnity Company	1985	Maryland
Union Indemnity Insurance Company	1985	New York
S & H Insurance Company	1985	California
Transit Casualty Company	1985	Missouri
American Fidelity Fire Insurance Company	1985	New York
Commercial Standard Insurance Company	1985	Texas
Iowa National Mutual Insurance Company	1985	Iowa
Carriers Insurance Company	1986	Iowa
Midland Insurance Company	1986	New York
Great Global Assurance Company	1986	Arizona

American Druggists' Insurance Company	1986	Ohio
Allied Fidelity Insurance Company	1986	Indiana
Mission Insurance Company	1987	California
Mission National Insurance Company	1987	California
Mission Reinsurance Corporation	1987	Missouri
Enterprise Insurance Company	1987	California
Integrity Insurance Company	1987	New Jersey
American Interinsurance Exchange	1988	Indiana
American Mutual Liability Insurance	1989	Massachusetts
American Mutual Insurance of Boston	1989	Massachusetts
Stone Mountain Insurance Company	1989	Georgia
Paxton National Insurance Company	1989	Pennsylvania
American Universal Insurance Company	1991	Rhode Island
Edison Insurance Company	1991	Illinois
Western Employers Insurance Company	1991	California
Rockwood Insurance Company	1991	Pennsylvania
MCA Insurance Company	1992	Oklahoma
Insurance Company of Florida	1992	Florida
Employers Casualty Company	1994	Texas
Premier Alliance Insurance Company	1994	California
Presidio Insurance Company of Indiana*	1986	Indiana
Heritage Insurance Company*	1986	Illinois
Homeland Insurance Company*	1987	California
United Fire Insurance Company*	1989	Illinois
Coronet Insurance Company	1996	Illinois
United Community Insurance Company	1994	New York
Insurance Corporation of America	1997	Texas
Granger's Mutual Insurance Company	1997	Maryland
United Southern Assurance Company	1997	Florida
Quaker City Insurance Company	1997	Pennsylvania
U.S. Capital Insurance Company*	1997	New York
American Eagle Insurance Company	1997	Texas
LMI Insurance Company	2000	Ohio
Hamilton Insurance Company	2000	California
Superior National Insurance Company*	2000	California
California Compensation Insurance Company*	2000	California
Commercial Compensation Casualty Company	2000	California
Credit General Insurance Company	2001	Ohio
Acceleration National Insurance	2001	Ohio
Reliance Insurance Company	2001	Pennsylvania
International Indemnity Company*	2001	Georgia
PHICO Insurance Company	2002	Pennsylvania
Home Insurance Company	2003	New Hampshire

Reciprocal of America	2003	Virginia
Fremont Indemnity Company	2003	California
Legion Insurance Company	2003	Pennsylvania
Villanova Insurance Company	2003	Pennsylvania
Protective National Insurance Company of Omaha	2004	New Jersey
State Capital Insurance Company	2004	North Carolina
Casualty Reciprocal Exchange	2004	Missouri
IGF Insurance Company	2004	Indiana
South Carolina Insurance Company	2005	South Carolina
Vesta Fire Insurance Company	2006	Texas
Shelby Insurance Company	2006	Texas
Shelby Casualty Insurance Company	2006	Texas
Park Avenue Property & Casualty Insurance Company of Oklahoma	2009	Oklahoma
Imperial Casualty and Indemnity Company	2010	Oklahoma
RISCORP National Insurance Company	2010	Missouri
The Insurance Corporation of New York	2010	New York
Atlantic Mutual Insurance Company	2011	New York
Centennial Insurance Company	2011	New York
Western Insurance Company*	2011	Utah
Frontier Insurance Company	2012	New York
American Manufacturers Mutual Insurance Company	2013	Illinois
American Motorists Insurance Company	2013	Illinois
Lumbermens Mutual Casualty Company	2013	Illinois
Ullico Casualty Company	2013	Delaware
Gramercy Insurance Company	2013	Texas
Freestone Insurance Company	2014	Delaware
Red Rock Insurance Company	2014	Oklahoma
Professional Liability Insurance Company of America	2014	New York
Lincoln General Insurance Company	2015	Pennsylvania
Affirmative Insurance Company	2016	Illinois
Lumbermen's Underwriting Alliance	2016	Missouri
CastlePoint National Insurance Company	2017	California
Guarantee Insurance Company	2017	Florida
Millers First Insurance Company	2018	Illinois
Northwestern National Insurance Company	2019	Wisconsin
Windhaven National Insurance Company	2020	Texas
Gateway Insurance Company	2020	Illinois
American Services Insurance Company	2020	Illinois
Bedivere Insurance Company	2021	Pennsylvania
Western General Insurance Company	2021	California

Global Liberty Insurance Company
Highlands Insurance Company

2021
2021

New York
Texas

* Never Any Activity – Inactive

MANAGEMENT AND CONTROL

Management of the Association, according to the plan of operation, is vested in a board of nine directors to be elected for three-year terms by the member insurers to fairly represent all types of such insurers. A majority of the board constitutes a quorum for the transaction of business and a majority of members present at any meeting in which there is a quorum present may act as the board except that an affirmative vote of five members is required to (1) approve a contract with a servicing facility, (2) levy an assessment or provide for a refund, or (3) borrow money.

OFFICERS AND DIRECTORS

At December 31, 2022, the designated representatives of the member insurers serving on the board, and the respective officers elected by the board, were as follows:

Director

John Naum
Vice President of Finance

Tom Brown
Section Manager

David Priddy
Sr. Vice President Accounting and
Business Services

Theresa C. Lewis
Secretary-Treasurer

Joseph Torti
Vice President Regulatory Affairs

Douglas Morrissey
AVP, Claims Counsel

L. Noel Patterson, Jr.
Regional Counsel

Representing

Northern Neck Insurance Company

State Farm Mutual Automobile
Insurance Company

Virginia Farm Bureau Mutual
Insurance Company

Mutual Assurance Society of Virginia

United States Fire Insurance Company

Continental Casualty Company

Allstate Insurance Company

Beth W. Murphy
 VP, Assistant General Counsel,
 Assistant Secretary

Michael P. Catina
 Assistant VP & Assistant General
 Counsel

Grange Insurance Company

Zurich American Insurance Company

Officers

Theresa C. Lewis
 L. Noel Patterson, Jr
 Barbara P. Law
 Heather Holland
 Jeffrey Scott

Chairman
 Vice Chairman
 Executive Secretary
 Treasurer
 Claims Manager

PLAN OF OPERATION

The Association's members include all insurers who write all classes of direct insurance except life, annuity, health or disability insurance, mortgage guaranty, financial guaranty (or other forms of insurance offering protection against investment risk), fidelity or surety bonds (or any other bonding obligations), credit insurance, insurance of warranties or service contracts, title insurance or insurance of vessels or craft used primarily in a trade or business, their cargoes and marine builders' risk and marine protection and indemnity. Any class of insurance written by cooperative nonprofit life benefit companies, mutual assessment life, accident and sickness insurers, burial societies, fraternal benefit societies, captive insurers, risk retention groups and home protection companies is also excluded from membership. Subject insurers are required to remain members of the Association as a condition of their authority to transact the business of insurance in this Commonwealth.

The Association is obligated to pay covered claims that existed prior to the determination of insolvency and which arose before the earliest of ninety-one days after the determination of insolvency, the policy expiration date or the date the insured replaces or cancels the policy. Such obligations include unearned premiums in excess of \$50 but less than \$300,000. All other claims are included up to \$300,000 per claim, except workers' compensation, which is covered for the full amount provided in the policy. In no event shall the Association be obligated to pay a claimant for an amount in excess of the insolvent insurer's obligation for a covered claim. A covered claim, which also includes unearned premiums, is one involving a claimant or insured who was a resident of this Commonwealth at the time of the insured event or for which property

relating to the claim is permanently located in this Commonwealth. By law, the Association is deemed the insurer to the extent of its obligations for covered claims.

For purposes of administration and assessment, the Association is required to have three separate accounts: a worker's compensation insurance account, an automobile insurance account and an account for all other applicable insurance. Claims and expenses paid are to be allocated among these accounts separately. Assessments also are to be made against members separately for each account in an amount necessary to pay the obligations. Assessments of each member shall be based on the ratio of the net direct written premiums of the member insurer to the net direct written premiums of all member insurers. This ratio is determined using premiums for the preceding calendar year for the specific account.

During the four-year period under review, the Association levied the following assessments:

	<u>2018</u>	<u>2021</u>	<u>2021</u>
Automobile	<u>\$700,000</u>	<u>\$700,000</u>	<u>\$1,200,000</u>
Total Assessments	<u>\$700,000</u>	<u>\$700,000</u>	<u>\$1,200,000</u>

The Association did not authorize any refunds during this period.

Effective January 1, 1985, the Association entered into an agreement with Guaranty Fund Management Services (GFMS) to provide management and claim supervisory services. GFMS is a voluntary non-profit unincorporated association whose principal office is in Boston, Massachusetts. GFMS also provides services to several other state guaranty associations.

The agreement provides that certain operating costs of GFMS shall be distributed among the member guaranty funds based on the ratio of the net premiums written on covered lines of insurance for each state association to the total of net premiums written for all associations under the agreement. In addition, the agreement provides that each guaranty fund shall be responsible for the payment of its own direct obligations. Expenses, other than direct expenses, are allocated to insolvencies based on time maintained by certain employees, transaction activity and/or premium ratios.

On March 8, 1989, GFMS entered into a contract with Helmsman Management Services, Inc. (Helmsman), a subsidiary of Liberty Mutual Insurance Company, to provide claims and administrative services for workers' compensation claims arising under workers' compensation policies issued by an insolvent insurer and payable by the

guaranty associations. Under the agreement, GFMS was required to maintain a deposit with Helmsman and reimburse all amounts paid by Helmsman. Beginning with the Rockwood Insurance Company insolvency, GFMS began servicing claims arising under workers' compensation policies.

Effective July 13, 2020, GFMS converted to a non-profit corporation under the laws of the state of Delaware. During this time, GFMS created a formal delegate services agreement to supercede the previous management services agreement. The Association approved the Agreement, which became effective January 1, 2021, its Board meeting on October 22, 2020. Operating expenses continue to be distributed based on previous allocation methods.

FINANCIAL STATEMENTS

There follows, on a modified cash basis, a statement reflecting the financial condition of the Association at December 31, 2022, a statement of revenues and expenses for the year ended December 31, 2022, and a statement of changes in fund balance for the period under review. The statements made in this part of the report and the amounts included therein are generally in the form of the financial report filed with the Commission.

STATEMENT OF FINANCIAL POSITION**Assets**

Cash and cash equivalents	\$4,087,018
Investments	155,471,876
Other assets	706,000
Total assets	<u>\$160,264,894</u>

Liabilities and Fund Balance

Total liabilities	\$0
Fund balance	<u>160,264,894</u>
Total liabilities and fund balance	<u>\$160,264,894</u>

STATEMENT OF REVENUES AND EXPENSES

Revenues

Members' insolvency assessment	\$2,427,904
Insolvency recoveries	541,933
Investment income	1,980,796
Realized losses on investments	<u>(1,887,445)</u>
Total revenues	<u><u>\$3,063,188</u></u>

Expenses

Loss and loss adjustment expense	\$5,731,457
Administrative expenses	<u>2,308,990</u>
Total expenses	<u><u>\$8,040,447</u></u>

Decrease in fund balance	(\$4,977,259)
Fund balance, beginning of the year	<u>165,242,153</u>
Fund balance, end of the year	<u><u>\$160,264,894</u></u>

STATEMENT OF CHANGES IN FUND BALANCE

	2018	2019	2020	2021	2022
Fund balance, December 31, prior year	\$142,093,205	\$145,338,216	\$158,740,470	\$158,663,012	\$165,242,153
Change in fund balance	<u>3,245,011</u>	<u>13,402,254</u>	<u>(77,458)</u>	<u>6,579,141</u>	<u>(4,977,259)</u>
Fund balance, December 31, current year	<u><u>\$145,338,216</u></u>	<u><u>\$158,740,470</u></u>	<u><u>\$158,663,012</u></u>	<u><u>\$165,242,153</u></u>	<u><u>\$160,264,894</u></u>

SUBSEQUENT EVENT

As of May 2023, Ryan Conway replaced John Naum as the board representative for Northern Neck Insurance Company and Tina Quigley replaced L. Noel Patterson as the board representative for Allstate Insurance Company. At the May 2023 meeting, the Board voted Beth W. Murphy from Grange Insurance Company to the position of Vice Chairman, replacing L Noel Patterson.

ACKNOWLEDGMENT

The courteous cooperation extended by the Association's administrator, Guaranty Fund Management Services, during the course of the examination was sincerely appreciated.

In addition to the undersigned, Mario A. Cuellar, CFE, AAPIR, Danielle T. Ellis, AAPIR, and Benjamin B. MacKercher, CFE, participated in the work of the examination.

Respectfully submitted



Jennifer K. Blizzard, CFE, AIAF, AAPIR
BOI Manager
Commonwealth of Virginia

December 7, 2023

VIA ELECTRONIC MAIL
David H. Smith, Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23219

RE: Virginia Property and Casualty Insurance Guaranty Association
Examination Report as of December 31, 2022

Dear Chief Examiner Smith:

On behalf of the Virginia Property and Casualty Insurance Guaranty Association, I am writing to acknowledge receipt of the above captioned report. As you anticipated, the Association does not object to any findings in this report. At this time I anticipate a single copy of the final report will be sufficient for the Association's records.

Thank you and your examiner's for your time and professionalism in undertaking this exam.

Sincerely,



Barbara Law
Executive Secretary