



MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

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MARK HAIRE  
Deputy Commissioner of Insurance

June 25, 2014

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Mr. Joe Shumaker, Manager  
Mississippi Residential Property Underwriting Association  
2685 Crane Ridge Drive  
Jackson, MS 39296-5231

**RE: Report of Examination as of December 31, 2012**

Dear Mr. Shumaker:

In accordance with Miss. Code Ann. § 83-38-27 (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY

  
Christina J. Kelsey  
Senior Attorney

MC/CJK/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF MISSISSIPPI  
          RESIDENTIAL PROPERTY UNDERWRITING  
          ASSOCIATION**

**CAUSE NO. 14-6763**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-38-27 (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. §§ 83-38-27 and 83-5-201 et seq. (Rev. 2011).

**II.**

That the Mississippi Residential Property Underwriting Association was established by the Mississippi Legislature on July 1, 1987, to assure adequate market for residential fire and extended coverage insurance to the rural areas of Mississippi.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-38-27 (Rev. 2011), called for an examination of the Mississippi Residential Property Underwriting Association and appointed Neal Rischall, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about November 15, 2013, the draft Report of Examination concerning the Mississippi Residential Property Underwriting Association for the period of January 1, 2008 through December 31, 2012, was submitted to the Department by the Examiner-In-Charge, Neal Rischall.

### V.

That on or about December 2, 2013, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period with additional time until March 3, 2014, to submit any rebuttal to the draft report. On or about February 26, 2014, the Company responded in a letter and in response thereto, minor revisions were made to the report.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination and all relevant examiner work papers, that the Report of Examination of the Mississippi Residential Property Underwriting Association, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.


**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, the Mississippi Residential Property Underwriting Association shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that the Mississippi Residential Property Underwriting Association take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 25<sup>th</sup> day of June 2014.



  
\_\_\_\_\_  
MIKE CHANEY  
COMMISSIONER OF INSURANCE

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 25<sup>th</sup> day of June 2014, to:

**Mr. Joe Shumaker, Manager  
Mississippi Residential Property Underwriting Association  
2685 Crane Ridge Drive  
Jackson, MS 39296-5231**



Christina J. Kelsey  
Senior Attorney

Christina J. Kelsey  
Senior Attorney  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 9853



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

**MISSISSIPPI RESIDENTIAL PROPERTY  
INSURANCE UNDERWRITING ASSOCIATION**

**As of**

**December 31, 2012**

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION**

State of MN,

County of DALTON,

Neal Rischall, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Mississippi Residential Property Insurance Underwriting Association as of December 31, 2012.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Mississippi Residential Property Insurance Underwriting Association was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

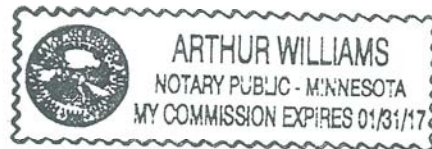
The affiant says nothing further.

Neal Rischall  
Examiner's Signature

Subscribed and sworn before me by Neal Rischall on this 15 day of NOV, 20 13.

(SEAL)

[Signature]  
Notary Public



My commission expires 01 31 2017 [date].





**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

## MISSISSIPPI INSURANCE DEPARTMENT

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October 31, 2013

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2012, of the affairs and financial condition of:

### **MISSISSIPPI RESIDENTIAL PROPERTY INSURANCE UNDERWRITING ASSOCIATION**

At the corporate office of the Mississippi State Rating Bureau at  
2685 Crane Ridge Drive  
Jackson, MS 39296

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and Miss. Code Ann. § 83-38-27 was performed in Jackson, Mississippi, at the statutory home office of the Association. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed an organizational examination of Mississippi Residential Property Insurance Underwriting Association (“Association” or “MRPIUA”). The last exam was completed as of December 31, 2004. This examination covers the period January 1, 2008 through December 31, 2012.

The organizational examination entails identifying and analyzing business operations and activities considered to have an impact on the financial condition of MRPIUA. It encompasses an organizational review of financial reporting and market conduct issues including corporate governance and oversight.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks by obtaining information, including corporate governance, identifying and assessing inherent risks, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities were considered in accordance with the risk-focused examination process. In addition to the standard procedures performed in a financial examination, the Mississippi Insurance Department (“MID”) expanded the scope of this examination to include in the risk focus approach review of the following areas:

- Rate adequacy review
- Adequacy of the reinsurance program.
- Market Conduct pertaining to premium discounts, complaint handling, agent activity, and claims processing.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

The following recommendations were included in the Report of Examination of the Association as of December 31, 2004. A follow up was performed during the examination to determine the current status of the recommendation.

### **1. Conflict of Interest Statement**

It was recommended that a formal conflict of interest policy be established and the board members and management of the Association annually acknowledge their understanding of the policy and disclose actual or potential conflicts, if any exist.

The Association has subsequently addressed this recommendation.

## **HISTORY OF THE ASSOCIATION**

The Association was established by House Bill Number 1000 of the 1987 Legislative Session of the Mississippi Legislature (codified as Miss. Code Ann. (1972) Sections 83- 38-1 et seq.). This law, which became effective July 1, 1987, provided a facility designed to assure an adequate market for residential fire and extended coverage insurance to all areas of Mississippi that were designated as fire protection class nine or ten by the Insurance Department.

House Bill No. 1113 of the 2003 Regular Session of the Mississippi Legislature was enacted to amend Section 83-38-1 of the Mississippi Code to create the Mississippi Residential Property Insurance Underwriting Association as the replacement for the Mississippi Rural Risk Underwriting Association, effective July 1, 2003. The Legislation expanded the existing Mississippi Rural Risk Underwriting Association law that provides a residual market for residential property insurance in rural areas of the state to provide a residual market for residential property insurance in all protection classes of the state as designated by the Mississippi State Rating Bureau. The expansion excludes wind and hail coverage for the coastal counties of Hancock, Harrison and Jackson.

All licensed companies who write property business in Mississippi on a direct basis are required to participate as members of the Association. Each member participates in the writings, expenses, profits and losses of the Association on a basis of the proportion of its own fire and extended coverage property premiums bears to the aggregate of all members' premiums for these lines of business.

Every member receives credit annually for essential residential property insurance voluntarily written in the three coastal counties and for protection classes nine and ten throughout the state. The Association's tax status is as a partnership, but the entity itself is unique, with an organizational structure as created by Mississippi Code Section 83-38-1 *et seq.*

## **CORPORATE RECORDS**

The minutes of the meetings of the Board of Directors ("Board"), regarding the Association's business affairs as recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at the meetings for deliberation.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Plan of Operation states that the Association is to be administered by the Board of Directors ("Board"). The Board consists of seven members as follows:

- Five members of the Association who are elected annually by the insurers of the Association.
- Two licensed Mississippi agents who are appointed annually by the Commissioner of Insurance.

The Board of Directors at December 31, 2012, is as follows:

Name and Residence	Year Appointed	Principal Occupation
Steve Simkins Pascagoula, Mississippi	2012	State Farm Fire & Casualty Ins. Co
Russ Galbraith Maumelle, Arkansas	2012	Foremost Insurance Company
Joe Bianco Tampa, Florida	2012	Metlife Auto & Home Group
Robert Arnold Jackson, Mississippi	2012	MS Farm Bureau Casualty Ins. Co.
Lorrie K. Brouse Nashville, Tennessee	2012	Allstate Insurance Company
Ronald L. Andrews Vicksburg, Mississippi	2012	Vicksburg Insurance Agency
Mark Mohler Ocean Springs, MS	2012	Lemon-Mohler Insurance Agency

### **Committees**

The Plan of Operation empowers (1) the Chairman of the Board to appoint or (2) the Board to elect standing committees or such temporary or special committees as it deems necessary for the transaction of MRPIUA's business. The committees and their duly elected members at December 31, 2012 were:

### **Committee Structure**

Nominating	Underwriting, Claims and Audit	Reinsurance
Lorrie Brouse, Chairperson	Russ Galbraith, Chairperson	Lorrie Brouse, Chairperson
Ronnie Andrews	Joe Bianco	Russ Galbraith
Steve Simkins	Lorrie Brouse	Ronnie Andrews
Mark Mohler	Ronnie Andrews	Robert Arnold

## Officers

The Plan of Operation requires the Board to elect a Chairperson, Vice-Chairperson, Secretary and Treasurer. The duly elected officers at December 31, 2012, are as follows:

<b>Name</b>	<b>Year Elected/Appointed</b>	<b>Title</b>
Robert Arnold	2012	Chairperson
Steve Simkins	2012	Vice Chairperson
Ronald Andrews	2012	Secretary/Treasurer

### Conflict of Interest

The Association has formal procedures whereby disclosures were made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with their official duties.

### Corporate Governance

The risk- focused approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation includes assessing the "tone-at-the-top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees.

Examiners followed the National Association of Insurance Commissioners ("NAIC") guidelines in its assessment of the Association's corporate governance framework. An assessment was performed on the effectiveness of the Board of Directors, the executive management team, internal controls structure and the IT framework. The assessment included interviewing Board members and management, reviewing the Association's organizational structure, reviewing Board members and management background and experience, and understanding the assignment of authority and responsibility and dissemination of information.

## HOLDING COMPANY STRUCTURE

The Association is not a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1.

### Affiliated and Related Party Transactions

MRPIUA shares office space and personnel with the Mississippi State Rating Bureau ("MSRB"), an organization responsible for establishing fire and allied lines advisory rates/loss costs for Mississippi. MSRB has been designated as the administrating agency for the MRPIUA. The administrating arrangement is covered under an agreement between MRPIUA and MSRB which was entered into in 2003 and remains in force. MRPIUA reimburses the MSRB for the related costs incurred. Reimbursement for salaries, benefits and other employee related expenses are based on time devoted to each organization and rent and occupancy expenses are based on space occupied. Other operating expenses are based on actual or estimated usage.

## **TERRITORY AND PLAN OF OPERATION**

The purpose of MRPIUA is to make essential residential fire and extended coverage property insurance available on eligible property located in Mississippi for property owners who have been unable to secure such insurance in the normal insurance markets. Any person having an insurable interest in insurable dwelling property at fixed locations may apply for coverage. The coverage extends to all protection classes of the state.

Any broker or agent licensed in Mississippi can submit applications on behalf of the applicant. The commission rate is ten (10) percent on premiums collected for new and renewal business. All policies are issued for a term of one year.

All licensed companies who write property business in Mississippi on a direct basis are required to participate as members of the Association. Each member participates in the writings, expenses, profits and losses of the Association on a basis of the proportion of its own fire and extended coverage property premiums bears to the aggregate of all members' premiums for these lines of business.

Policies may be written in an amount not to exceed 95% of the actual cash value of the insured property and may not exceed \$200,000 on the dwelling and \$75,000 on the contents of such dwelling. The policy may not include the value of the land on which the dwelling is constructed.

A \$500 deductible is applied to all claims. There is no reduction in premium for the deductible involving more than twenty-five dwellings under the same ownership. Windstorm and hail coverages are excluded for risk located in the coast area consisting of Hancock, Harrison, and Jackson counties in Mississippi.

Before a risk can be insured through the MRPIUA, efforts must be made to write the Fire and Extended Coverage (only Fire Coverage for the coastal counties of Hancock, Harrison and Jackson) through the voluntary insurance market.

### **Voluntary Credits**

A member may receive credit for property insurance policies voluntarily written for Fire Protection Class 9 & 10 and in the coastal counties of Hancock, Harrison and Jackson. Member's participation in the administrative expenses is not reduced accordingly.

### **Claims Processing**

MRPIUA engages Boulder Claims, LLC ("Boulder") to provide claims management services. Boulder is part of ICAT Holdings, LLC which includes: ICAT Managers, LLC, Syndicate 4242 and Boulder Claims, LLC. ICAT Boulder Claims provides claims administration and adjusting services to Lloyd's Syndicate 4242 and all other business underwritten by ICAT.

Boulder maintains claim files and interface on the Associations' SurePower claims system. Boulder is responsible for investigating and coordinating payments; maintaining claims information on SurePower, including examining all reported claims; recording claims and

adjustment expenses; managing the call center; managing claims adjuster activity; establishing reserves; and, communicating and coordinating claims activity with the Associations. Boulder Claims is authorized to administer and resolve claims provided so long as the total incurred loss for any particular claim does not exceed the authority limit.

For Cat exposure, Boulder has the ability to scale resources to handle 30,000 to 40,000 claims. Boulder utilizes a Point of Delivery (POD) concept where there are four key POD partners that can be activated upon assessed needs. The POD partners provide office, desk and supervision for processing claims. They are independent adjusting companies located throughout the U.S. They include: NSA in Indianapolis, IN; ICA in Sacramento, CA; Cunningham Lindsey in Dallas, TX; and Worley in Hammond, LA.

## **REINSURANCE**

The Association renewed its excess reinsurance contract on January 1, 2012 for two years ending January 1, 2014. The contract provides for coverage of \$15 million excess of an annual aggregate retention of \$5.5 million. The contract may be cancelled, or the pricing adjusted at January 1, 2013, for an increase in the average value of ten percent or more. Additionally, the contract may be cancelled or re-priced if the loss ratio exceeds 103% at January 1, 2013. The total premium under the contract is \$1,100,000, payable in two annual installments of \$550,000. The prior contract's premium was \$950,000 with \$500,000 and \$450,000 due in 2012 and 2011, respectively.

AmWINS Group, Inc. ("AmWINS") acts as the Association's independent reinsurance intermediary. AmWINS's responsibilities include assisting the MRPIUA in structuring the reinsurance program, finding suitable reinsurers, and assessing the availability and price of potential reinsurance arrangements.

MRPIUA had not filed any reinsurance claims during the examination period. In the event of a Cat event that exceeds the retention level, MRPIUA would work through AmWINS to facilitate the reinsurance recoverable process.

## **ACCOUNTS AND RECORDS**

All of the accounts and records of the Association are maintained in the Association's office which is located in the MSRB facility. While physical claim files are maintained at the offices of the claims management services provider, all claims files are imaged and uploaded into the Association's claims administrative system. Thus, claims records can be accessed directly at the Association's office.

MRPIUA is not required to prepare financial information on a statutory basis that is in conformity with the National Association of Insurance Commissioners ("NAIC) *Accounting Practices and Procedures Manual*. The Association is required to furnish to the Commissioner a written report of operation for the preceding fiscal year ending December 31st annually on or before March 1st in such form and detail as the Commissioner may determine. The Association's financial statements are prepared in conformity with accounting practices prescribed by the National Committee on Property Insurance ("NCPI").



## **FINANCIAL STATEMENTS**

The financial statements included in this report consist of a Statement of Assets, Liabilities and Members' Equity (Deficit) as of December 31, 2012, Summary of Revenue and Expenses for year ended December 31, 2012, Statement of Changes in Members' Equity (Deficit) for the year ended December 31, 2012 and Statement of Changes in Cash Balances for the year ended December 31, 2012. These statements are prepared in conformity with accounting practices prescribed by the NCPI. No adjustments were made to the statements filed with the MID as a result of this examination.

**MISSISSIPPI RESIDENTIAL PROPERTY INSURANCE UNDERWRITING  
ASSOCIATION**

**STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY  
DECEMBER 31, 2012**

	<u>2012</u>
<b>Assets</b>	
Cash in bank and money market funds	\$2,228,176
Certificates of deposit	2,135,094
Accrued investment income	1,500
Assessments receivable, net	326
Due from related association	263,963
Other receivables, net	62,586
Computer equipment, software and fixtures, net	615,775
	<u>\$5,307,420</u>
<b>Liabilities</b>	
Unearned premiums	\$3,833,967
Advance premiums	112,381
Reserve for unpaid losses and loss adjustment expenses	1,271,823
Accounts payable	25,266
Accrued premium tax	40,088
Commissions payable	57,590
	<u>5,341,115</u>
<b>Members' (deficit)</b>	<u>(33,695)</u>
	<u>\$5,307,420</u>

**MISSISSIPPI RESIDENTIAL PROPERTY INSURANCE UNDERWRITING  
ASSOCIATION**

**SUMMARY OF REVENUE AND EXPENSES  
FOR YEAR ENDED DECEMBER 31, 2012**

	<u>2012</u>
Revenue	
Written premium	\$7,759,639
Reinsurance ceded	(550,000)
Change in unearned premium	(194,995)
	<u>7,014,644</u>
Deductions	
Losses	4,821,352
Loss adjustment expenses	1,223,895
Commissions	781,525
Premium tax	169,793
Salaries	385,945
Other	883,676
	<u>8,266,186</u>
Underwriting income (loss)	<u>(1,251,542)</u>
Other revenue	
Interest income	12,364
Inspection fees	88,620
Other revenue	1,425
	<u>102,409</u>
Excess of revenue over (under) expenses	<u><u>(\$1,149,133)</u></u>

**MISSISSIPPI RESIDENTIAL PROPERTY INSURANCE UNDERWRITING  
ASSOCIATION**

**STATEMENT OF CHANGES IN CASH BALANCES  
FOR YEAR ENDED DECEMBER 31, 2012**

	2012
Cash flows from operating activities:	
Excess of revenue over (under) expenses	(\$1,149,133)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by (used in) operating activities:	
Depreciation/amortization	194,598
Change in:	
Accrued investment income	6,200
Other receivables	(26,926)
Unearned premiums	194,995
Advance premiums	(58,699)
Accounts payable	(175,044)
Accrued premium tax	5,118
Commissions payable	4,086
Reserve for unpaid losses and loss adjustment expenses	139,477
Net cash provided by (used in) operating activities	(865,328)
Cash flows from investing activities:	
Maturity of bank certificate of deposit	2,119,112
Purchase of bank certificate of deposit	(2,135,094)
Purchases of computer equipment, software and fixtures	(45,562)
Net cash used in investing activities	(61,544)
Cash flows from financing activities:	
Collections of assessment of members	-
Net cash provided by financing activities	-
Net increase (decrease) in cash in bank and money market funds	(926,872)
Cash in bank and money market funds, beginning	3,155,048
Cash in bank and money market funds, ending	\$2,228,176

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO ASSOCIATION  
EQUITY  
DECEMBER 31, 2012**

There were no changes made to the assets, liabilities, and the members' equity balance reported by the Association for the year ended December 31, 2012. The Association equity, which totaled (\$33,695) was deemed to be reasonably stated.

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

**None**

### **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Association's market conduct. The areas in which limited procedures were performed include premium discounts, complaint handling, agent/producer practices and commissions, and claims processing. Issues were identified during the examination.

#### **Premium Discounts**

The premium discounts review focused on all areas affecting premium, such as roof type, protection class, and construction type. A sample of 45 policies was selected for review. There were four (4) errors found in the dwelling sample and three (3) errors in the mobile homes sample. These errors were addressed and corrected prior to the completion of the exam.

#### **Agent Practices and Commissions:**

Both agent activity and commissions paid were reviewed. The review of agent activity included selecting and reviewing a sample of applications to ensure they were submitted by licensed resident agents. Commission payments were examined to ensure that commission amounts were accurately calculated and paid.

In seven (7) instances the agents/agency name displayed on the policy did not show as it appears in the license. Although it was later confirmed that the agents/agency were licensed, it is recommended that agents/agency names listed on the policy show exactly how it appears on the agent's license.

#### **Claims**

Claims are processed through ICAT Boulder Claims (Boulder). Boulder provides claims management services to MRPIUA. The contract was effective March 1, 2010. Boulder provides claims services through the MS Plans Policy Management System computer system, SurePower. Boulder Claims is authorized to administer and resolve claims provided so long as the total incurred loss for any particular claim does not exceed the authority limit. The Association has a Claims Manager, who oversees the servicing provider activity.

A sample of paid claims was reviewed to determine if claims were properly paid. The types of errors found were:

1. Failure to include overhead and profit in the estimate. The Association's procedure is to include overhead and profit when a General Contractor is involved or when it is reasonable to expect an insured to hire a general contractor. The Association agreed with this finding. This issue has been addressed with Boulder.

2. Failure to pay sales tax. The Association agreed with this instance and has addressed the issue with Boulder.
3. Improperly paying claims on policies excluding wind. These were Hurricane Isaac claims which should have been denied since wind coverage is not provided by MRPIUA in certain coastal counties. The wind policy was written by MWUA. One claim was paid; therefore, a transfer of funds was processed from MWUA to MRPIUA. The other claims were denied due to being under the deductible; therefore, no further action is needed.
4. Claims (4) processed under the incorrect policy.

The Association agreed with the findings and has transferred the appropriate funds internally.

### **RATE ADEQUACY**

MRPIUA rate filing effective 12/1/2013 was reviewed as part of this examination. The filing will result in a prospective rate change of 0% for Fire policies and 20% for Extended Coverage (EC) policies. The submitted rate filings are materially below the indicated changes for EC. The MRPIUA Board has elected to take the actuarially indicated rate change for EC over a two year period by implementing another 20% increase for policies effective 12/1/2014.

It is recommended that MRPIUA perform a rate analysis with 2012 policy year data when available as the indicated rate changes do not consider adverse loss experience in the 2012 calendar year.

### **COMMITMENTS AND CONTINGENT LIABILITIES**

Regarding other commitments and contingent liabilities, during and subsequent to the examination period, the Association was involved in certain litigation in the normal course of business. In the opinion of management, based on the advice of legal counsel, the litigation should not result in judgments that would have a material adverse effect on the Associations financial statements.

### **SUBSEQUENT EVENTS**

On July 1, 2013, MRPIUA entered into a line of credit agreement and promissory note with MWUA. The terms of the agreement specify that MWUA will extend a loan or loans not to exceed \$1 million to MRPIUA. Interest is set at prime lending rate as published by the Wall Street Journal plus one quarter percent. At July 1, 2013, the interest rate was set at 3.5%. The rate will be adjusted on the first business day following any increase or decrease. However the applicable interest rates shall never be below 3.5%. The unpaid balance is due and payable in full on October 1, 2013. On July 2, 2013, MWUA provided \$300,000 in funds to MRPIUA and MWUA was repaid in full with interest on August 12, 2013.

On March 11, 2013 the Association completed the membership assessment for the 2009 policy year. The impact was a gross disbursement of \$2.7 million to member companies with \$.4 million due from member companies for a net impact of \$2.3 million.

On July 22, 2013 the Association made a special assessment to its membership of \$2.5 million for losses associated with three separate events which were (1) Hurricane Isaac (2) the Hattiesburg Tornado and (3) the central Mississippi Hail Storm. These three catastrophic events occurred within one twelve month period, adversely impacting 2012 and 2013 policy years and MRPIUA cash flow.

The Association filed an updated rate plan with the MID. The MRPIUA requested an extended coverage base rate increase of 20% for all dwellings. The impact of the request increases overall premiums by 2.5%. The rate plan for all new and renewal policies was approved by the MID with an effective date of December 1, 2013.



## **COMMENTS AND RECOMMENDATIONS**

***Agent Practices and Commissions:*** In seven (7) instances the agents/agency name displayed on the policy did not show as it appears in the license. Although it was later confirmed that the agents/agency were licensed, it is recommended that agents/agency names listed on the policy show exactly how it appears on the agent's license.

***Rate Adequacy:*** Submitted rate filings are materially below the indicated changes for Extended Coverage policies. It is recommended that MRPIUA perform a rate analysis with 2012 policy year data when available as the indicated rate changes do not consider adverse loss experience in the 2012 calendar year.

## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner: Laura Ervin

Examiner: Cecilee Houdek

Examiner: Victor Negron

Examiner: Michael Lamb

Reinsurance Specialist: Bryan Fuller

IT Specialist: Michael Morrissey

Examiner in Charge: Neal Rischall

Managing Examiner: Robert Kasinow

Actuary: Peter Sortis

Actuary: Brett Miller

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Examiner-in-charge