



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 Windstorm 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. § 83-34-27 (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
 WINDSTORM UNDERWRITING ASSOCIATION**

CAUSE NO. 14-6762

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. § 83-34-27 (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. §§ 83-34-27 and 83-5-201 et seq. (Rev. 2011).

II.

That the Mississippi Windstorm Underwriting Association was established by the Mississippi Legislature on April 14, 1987, to provide an adequate market for windstorm and hail insurance to the coastal area.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-34-27 (Rev. 2011), called for an examination of the Mississippi Windstorm 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 Windstorm 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 27, 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 Windstorm 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 Windstorm 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 Windstorm 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 25th 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 25th day of June 2014, to:

**Mr. Joe Shumaker, Manager
Mississippi Windstorm 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 WINDSTORM 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 Dakota,

Neal Rischall, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Mississippi Windstorm 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 Windstorm 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.

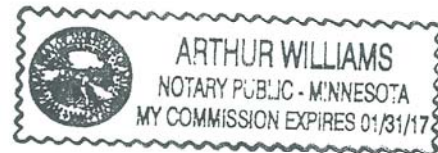
The affiant says nothing further.

Neal Rischall
Examiner's Signature

Subscribed and sworn before me by Neal Rischall on this 15 day of Nov., 2013.

(SEAL)

Arthur Williams
Notary Public



My commission expires 01 31 2017 [date].



MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of
Insurance

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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 WINDSTORM 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. § 83-34-27 and 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 the Mississippi Windstorm Underwriting Association (“Association” or “MWUA”). 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 MWUA. 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 about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Association 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:

- The 2004 and 2005 reinsurance reallocation calculation as required by the January 26, 2012 Mississippi Supreme Court decision.
- Depopulation efforts
- Rate adequacy review
- State funding review
- Adequacy of the reinsurance program.
- Surcharge process.
- Current litigation.
- 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

MWUA was established by House Bill 274 of the 1987 Legislative Session of the Mississippi Legislature (codified as MCA (1972) Sections 83-34-1 et seq.), and later revised by House Bill 1500 (HB 1500) in the 2007 Regular Session of the Mississippi Legislature. The purpose of the Association is to provide a residual market for windstorm and hail insurance coverage for the coastal Mississippi counties of Hancock, Harrison, Jackson, Pearl River, Stone and George.

With the passing of HB 1500 on March 22, 2007, the Association became a separate independent nonprofit entity. It is governed by an eleven member Board of Directors. Former members of the Association are now referred to as assessable insurers who have no rights to the assets and profits of the Association, but are obligated to pay assessments.

Prior to HB 1500, the Association was a non-incorporated statutorily mandated membership association made up of all admitted insurers writing property insurance in Mississippi. The members were responsible for any deficits, and divided any profits from the Association. The Association operated on a policy year basis and ultimately settled each policy year with the membership.

Under HB 1500, in the event of a loss to the Association, the assessable insurers may be assessed an amount limited to an annual statutory maximum not to exceed the greater of 10 percent of the deficit to the Association or 10 percent of aggregate statewide direct property premium writings. These assessments are recoupable by the insurers through a policyholder surcharge, which would be declared by the Mississippi Commissioner of Insurance ("Commissioner") subject to certain statutorily provided guidelines.

The Association also has the authority to issue bonds and to enter into loans, letters of credit, lines of credit, and other forms of indebtedness, as needed for operations, the purchase of

reinsurance, claim losses, and incurred but not reported claims. The Commissioner may declare a surcharge against all property and casualty insurance premiums (subject to certain statutorily provided guidelines) for insurance for property and activities in this state sufficient to repay the bonds or loans, or both. Section 83-34-33 excludes some lines of insurance from the surcharges.

Non-admitted insurers are not assessable insurers of the Association. Agents placing insurance through non-admitted insurers must collect from the insured and remit to the Association a non-admitted policy fee on all premiums collected. The fee is a percentage of the total policy premium, but is not considered premium and is not subject to premium taxes or commissions. On June 1, 2011, House Bill 785 was passed by the Mississippi Legislature subjecting all property and casualty lines written through non-admitted insurance carriers to a five (5) percent fee. In July 2012, the Mississippi Legislature, with the passage of Senate Bill 2626, amended this fee to 3 percent. The fee is scheduled to sunset on July 1, 2014. It is recommended that the Non-Assessable Insurers Policy Fee and Surcharge be renewed as the fees are a significant amount of MWUA revenue.

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 vests the management and control of the Association’s business affairs with the Board. The Board consists of eleven members as follows:

- Five representatives of the assessable insurers of which three are appointed by the Commissioner, one appointed by the Governor and one appointed by the Lieutenant Governor.
- Three licensed producers of which one coastal licensed producer is appointed by the Governor, one coastal licensed producer is appointed by the Lieutenant Governor and one a non-coastal licensed producer, is appointed by the Commissioner.
- Two coastal business representatives of which one is appointed by the Governor and one is appointed by the Lieutenant Governor.
- State Treasurer.

The duly appointed insurers and agencies having representatives sitting on the Board at December 31, 2012, are as follows:

Name and Residence	Year Appointed	Principal Occupation
Tom Quaka Jackson, Mississippi	2011	FCCI Insurance Group
Jeffrey Carver Meridian, Mississippi	2012	Union Standard Ins. Co.
Steve Simkins Pascagoula, Mississippi	2011	State Farm Insurance Co.
Robert Arnold Jackson, Mississippi	2010	MS Farm Bureau Casualty Ins. Co.
Lorrie K. Brouse Nashville, Tennessee	2011	Allstate Insurance Company
Lynn Fitch Jackson, Mississippi	Elected	State Treasurer
Chris Boone Jackson, Mississippi	2011	Stewart Sneed Hewes, Inc.
Bobby Portwood Gulfport, Mississippi	2010	Fox-Everett Inc.
Scott Lemon Ocean Springs, MS	2012	Lemon-Mohler Insurance Agency
Mark Cumbest Moss Point, Mississippi	2012	Cumbest Realty, Inc.
Frank Genzer Biloxi, Mississippi	2011	Design Studio - Architect

Committees

The Plan of Operation empowers the Board with the ability to appoint standing committees or such special committees, as it deems necessary, for the transaction of its business. Committees are utilized for researching specific issues. The Committee findings are presented at the Board meetings for discussion and approval. The committees and their duly elected members at December 31, 2012 were:

Committee Structure

Nominating	Audit	Underwriting and Claims
Robert Arnold, Chairperson	Robert Arnold, Chairperson	Bobby Portwood, Chairperson
Lorrie Brouse	Tom Quaka	Scott Lemon
Bobby Portwood	Jeffrey Carver	Frank Genzer
Jeffrey Carver	Steve Simkins	Lorrie Brouse
		Steve Simkins
		Tom Quaka

Reinsurance	Finance/Liquidity	Business Process
Lorrie Brouse, Chairperson	Lynn Fitch, Chairperson	Jeffrey Carver, Chairperson
Robert Arnold	Robert Arnold	Steve Simkins
Bobby Portwood	Tom Quaka	Lorrie Brouse
Mark Cumbest		Scott Lemon
Scott Lemon		Tom Quaka
Steve Simkins		

Plan of Operations	Mitigation	Building
Jeffrey Carver, Chairperson	Steve Simkins, Chairperson	Mark Cumbest, Chairperson
Mark Cumbest	Bobby Portwood	Jeffrey Carver
Scott Lemon	Scott Lemon	Frank Genzer
Tom Quaka	Lorrie Brouse	
Frank Genzer	Frank Genzer	
	Mark Cumbest	

Officers

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

Name	Year Elected/Appointed	Title
Christopher Boone	2011	Chairperson
Jeffrey Carver	2012	Vice Chairperson
Steve Simkins	2011	Treasurer
Frank Genzer	2011	Secretary

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

MWUA 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 MWUA. The administrating arrangement is covered under an agreement between MWUA and MSRB which was entered into in 1987 and remains in force. MWUA 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 the Association is to provide a residual market for windstorm and hail insurance coverage for the Mississippi Gulf Coast Area in compliance with Mississippi law. The Association is to act in accordance with Section 83-34-1 et seq. of the Mississippi Code in order to ensure that the residents and business owners of the coastal area have a market for windstorm and hail insurance. The coastal counties covered by MWUA are Hancock, Harrison, Jackson, Pearl River, Stone and George.

HB 1500 requires that the Association maintain a plan of operation that provides for the efficient, economical, fair and nondiscriminatory administration of the Association. The plan is to include methods for the assessment of all assessable insurers for deficits and expenses, the establishment of necessary facilities, management of the association, underwriting standards, procedures for determining the amounts of insurance to be provided to specific risks, time limits and procedures for processing applications for insurance, and any other provisions deemed necessary by the board.

Underwriting

Any person or entity having an insurable interest in insurable property at fixed locations in the Coast Area is entitled to apply to the Association for the essential property insurance coverage offered by the Association. Applications must be made on behalf of the applicant by a licensed Mississippi resident producer or broker. All properties are required to be inspected. Applications with property located in denoted flood zones must provide evidence of flood coverage. Policies are issued for a term of one year.

No dwelling property may be insured for more than \$1,000,000.00 for the structure and \$250,000.00 on contents contained therein. Except as otherwise specifically provided, all windstorm and hail property damage policies shall be written subject to 80% or higher coinsurance clause.

No commercial property location may be insured for more than \$1,000,000.00. Commercial property with limits of \$1,000,000.00 can be written on a blanket policy. The blanket policy can cover several structures at a single location address, several structures at several addresses, or a combination thereof. When a multi-location or a commercial risk is written blanket with multi-locations, the maximum coverage shall apply to the total location or locations.

Policies will not be automatically renewed. For policies that MWUA wishes to renew, MWUA will provide a renewal quotation, which contains the date of expiration of the existing policy, the quoted premium for the renewal of the policy, and a renewal notice form.

No new or increased coverage shall be bound or applications for new or increased coverage accepted when a named storm is in the Gulf of Mexico or within the boundaries of 80 degrees West longitude and 20 degrees North latitude (a "named storm" is a storm system that has been named by the National Hurricane Center of the National Weather Service).

For policies that cancel for any reason other than those specified by the Association, the full policy premium is considered earned and must be paid before the policy can be renewed or a new policy is issued for the same insured at the same location.

Commission Rates

The commission to a licensed agent or broker is 12% for new business and 10% on renewals. Agents or brokers receive their commission as the insured pays their installments and not on a written basis. Agents or brokers must refund ratably to the Association, commission on the

unearned portion of canceled liability and on reduction in premiums. No commission is payable on inspection fees.

Premium Discounts

Premium discounts are granted to policyholders for those properties that meet specific building code rating classifications or building certifications. The Association recognizes the Building Code Effectiveness Grading Schedule ("BCEGS") classifications of 1 thru 10 for a community based on the adequacy of its building code and the effectiveness of its enforcement of that code. A copy of the certificate of occupancy for the location must be provided to MWUA in order for the credit to be applied

Dwellings which have been constructed and certified by the Institute for Business and Home Safety ("IBHS") as qualifying for a Fortified Home Designation may receive credits upon receipt of documentation by the Association confirming such designation.

Risks not receiving BCEG or IBHS credits may obtain credit for existing dwellings that have been retrofitted with wind mitigation items as specified in the Manual of Rules and Procedures. Credits are issued upon inspection by an inspector authorized by MSRB.

Voluntary Credits

Assessable insurers receive annually, credit for essential property insurance voluntarily written and receive appropriate credits as outlined in the Plan of Operation. The method of determination of such credit shall be as authorized by the Plan of Operation as implemented by the Board of Directors.

Claims Processing

MWUA 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 Association's 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 Association. 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 purchases reinsurance coverage for protection against catastrophic events. The reinsurance policy period extends for one year, renewing on March 17th. For 2012, the total annual net premium was \$63.964 million, with annual commission of \$5.704 million.

At October 31, 2012, the Association had limits in force of \$7.035 billion. The total reinsurance limits purchased were \$743.5 million. Total retention by MWUA was \$71.5 million. Under the terms of the agreement in-force at December 31, 2012, the Association retains the first \$15 million of losses related to any insured event and a portion of various layers in excess of the \$15 million up to a total loss of \$815 million. Reinsurance premiums are based on the Association's average insurance in force for the coverage period and are payable as quarterly installments each calendar year. Final installments are made in December each year with the agreements renewing in March.

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

MWUA had not filed any reinsurance claims during the examination period. In the event of a Cat event that exceeds the retention level, MWUA would work through AmWINS to facilitate the reinsurance recoverable process. While the Association did not file any reinsurance claims during the examination period, MWUA did realize the following catastrophe losses:

Treaty Year	Incurred Loss	Event
2008-2009	\$3,767,917	Hurricane Gustav
2009-2010	none	none
2010-2011	none	none
2011-2012	\$388,361	Tropical Storm Lee
2012-2013	\$7,916,343	Hurricane Isaac

ACCOUNTS AND RECORDS

All of the accounts and records of the Association are maintained at its corporate 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.

MWUA 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 Association Equity as of December 31, 2012, Summary of Revenue and Expenses and Changes in Association Equity for year ended December 31, 2012, and a Statement of Changes in Cash Balances December 31, 2012. These statements are prepared in conformity with accounting practices prescribed by the National Committee on Property insurance. No adjustments were made to the statements filed with the Mississippi Department of Insurance as a result of this examination.

**STATEMENT OF ASSETS, LIABILITIES AND ASSOCIATION EQUITY
DECEMBER 31, 2012**

	<u>2012</u>
Assets	
Cash in banks and invested	\$194,696,053
Premiums receivable, net	6,332,395
Assessments receivable, net	13,963,211
Non-admitted policy fee receivable	1,161,228
Accrued interest receivable	5,134
Prepaid reinsurance	14,502,895
Computer equipment, software and fixtures, net	<u>1,880,046</u>
	<u>\$232,540,962</u>
Liabilities	
Unearned premiums	\$37,452,212
Advance premiums	2,193,132
Reserve for unpaid losses and loss adjustment expenses	1,477,905
Accounts payable	63,312
Commissions payable	1,140,965
Due to related association	<u>263,963</u>
	<u>42,591,489</u>
Association equity	<u>189,949,473</u>
	<u>\$232,540,962</u>

**SUMMARY OF REVENUE AND EXPENSES AND CHANGES IN ASSOCIATION
EQUITY
FOR YEAR ENDED DECEMBER 31, 2012**

	2012
Revenue	
Written premium	\$77,649,933
Reinsurance ceded	(69,660,946)
Change in unearned premium	2,273,190
	10,262,177
 Deductions	
Losses and loss adjustment expenses	10,546,323
Commissions	7,820,338
Salaries	1,100,521
Administrative and operating	2,775,397
	22,242,579
Underwriting loss	(11,980,402)
 Other revenue and expenses	
Grant revenue	-
Interest income	83,043
Inspection fees	194,435
Nonadmitted policy fees, less servicing expense of \$450,000 and \$475,000 for 2012 and 2011, respectively	12,602,988
Other income	539,020
	13,419,486
Excess of revenue over expenses	1,439,084
Association equity, beginning	181,922,194
Reversal of prior year assessment receivable allowance	6,588,195
	\$189,949,473

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

	2012
Cash flows from operating activities:	
Excess of revenue over expenses	\$1,439,084
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:	
Depreciation/amortization	508,126
Change in:	
Premiums receivable	191,097
Nonadmitted policy fee receivable	697,126
Accrued interest receivable	(4,264)
Prepaid reinsurance	8,885
Unearned premiums	(2,273,190)
Advance premiums	(416,026)
Accounts payable	(552,632)
Commissions payable	(125,950)
Reserve for unpaid losses and loss adjustment expenses	596,459
Net cash provided by operating activities	68,715
Net cash used in investing activities:	
Purchase of computer software	(152,924)
Net increase (decrease) in cash in banks and invested	(84,209)
Cash in banks and invested, beginning	194,780,262
Cash in banks and invested, ending	\$194,696,053
Noncash transactions	
Reversal of assessment receivable allowance	\$(6,588,195)

There were no changes made to the assets, liabilities, and the Association equity balance reported for the year ended December 31, 2012. The Association equity, which totaled \$189,949,473, was deemed 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 included premium discounts, complaint handling, agent/producer practices and commissions, and claims processing. The following issues were identified during the examination.

Premium Discounts

The underwriting and premium process was reviewed to ensure that premium discounts for wind resistant mitigation credits were accurately calculated and applied as specified in the Association's established guidelines. A sample of policies was selected for review with no material concerns noted.

Complaint Handling

MWUA received a total of 28 complaints during the scope period. There were a total of 17 complaints received during 2012. All 2012 complaints were reviewed. The sample reviewed showed complaints were handled properly and timely.

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.

Examiners selected Commission Statements for December 2012 and a sample of 20 agent/agencies was made to determine if commissions for new business were paid appropriately.

The review of the 20 agents/agencies commissions showed a total of 76 payments at 12%, which resulted in four (4) agents being paid an incorrect commission in five (5) instances. These 5 instances were renewals; therefore, they should have been paid at the 10% rate. The Association agreed with the findings. This was due to a processing error by the same individual. MWUA stated that the issue has been addressed with the individual. It is recommended that consideration be given to automating this process.

In six (6) 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 MWUA. The contract was effective March 1, 2010. Boulder provides claims services through the MS Plans Policy Management System computer system, SurePower. Boulder 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. An additional sample of closed without payment claims were reviewed to determine if they were handled properly.

One (1) error was found. The error was due to failing 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. MWUA agreed with this finding. This issue has been addressed with Boulder.

2004 AND 2005 REINSURANCE REALLOCATION

The Mississippi Supreme Court Number 2010-CC-00076-SCT ruling issued January 26, 2012, requires MWUA to reallocate the reinsurance recovery between year 2004 and 2005, and recalculate member assessments for those years. The Mississippi Supreme Court held that the reinsurance recoveries should have been allocated proportionately between policy year 2004 and policy year 2005 based upon a comparison of the losses resulting from policy year 2004 policies to the losses resulting from policy year 2005 policies.

In response to the Mississippi Supreme Court ruling, MWUA began the recalculation process. As part of this examination, a review of the reassessment process was made along with a review of the methods used for the reallocation calculation. Consequently, as of the completion of the examination the reallocation remains pending as a result of an appeal filed with MID. A determination of the appeal will not be made until subsequent to the issuance of this report.

While the process for the reassessment and the method for the reallocation calculation appeared to be reasonable and in compliance with the requirements stipulated in the Mississippi Supreme Court ruling, this is subject to the outcome of the appeal.

DEPOPULATION

As of December, 2012, there were 45,009 policyholders representing a total exposure of \$7.0 Billion. Coverage is 94% residential and 6% commercial. Pre hurricane Katrina, total exposure was \$1.8 Billion with 15,252 policyholders. The Pool saw a 3% reduction in the number of policyholders during 2012.

The primary focus of MWUA's depopulation efforts is centered on promoting the strengthening of homes through wind resistant mitigation programs, thus reducing the structure's overall risk exposure level that is acceptable by the voluntary market. MWUA recognizes mitigation efforts for both new and existing structures.

To assist in the depopulation program, a Coastal Director position was created. MWUA has recognized the importance of having a coastal presence and promoting stricter building code enforcement. The Coastal Director position was approved by the Board in the Fall of 2012 and was filled in the Spring of 2013. The responsibilities of the Director are to meet with and educate agents, builders, inspectors, architects, homeowners and carriers on wind mitigation programs.

As part of this examination, a review of the depopulation program was performed to ensure efforts were made by the Association to reduce the number of policies in the plan and overall risk exposure.

STATE FUNDING

MWUA has received a total of \$179,981,381 of federal and state funding. MWUA received \$80,000,000 of federal funding through the Katrina Disaster Relief Funds. The remaining \$99,981,381 was received through state funding.

\$80,000,000 plus \$1,876,510 in interest was appropriated to the MWUA through HB 1500. The sole purpose of funds is to defray expenses and costs for reinsurance. MWUA received the funds between 2008 and 2011.

In 2009, the Mississippi Legislature enacted House Bill 32 ("HB 32") creating a Hurricane Disaster Reserve Fund, designed to help defray the State's share of any nonfederal matching requirements for Federal Emergency Management Agency grants associated with Hurricane Katrina and other disasters. The Association received grants from this fund totaling \$9,104,871 and \$9,000,000 in 2010 and 2009, respectively.

As part of this examination, a review of the use of the state funding was performed to ensure that the Association has used the funds in the manner specified. Under the current reinsurance structure, MWUA is self insuring \$71.5M of lower tier coverage and self insuring amounts over the reinsurance coverage of \$815M. The uses of the funds are in line with the manners specified in HB 1500 and HB 32.

RATE ADEQUACY

The MWUA Board has selected rate level changes that are materially below the indicated changes given their current financial position:

- The amount of annual premium the MWUA has decided not to charge (the difference in the indicated and proposed) is approximately \$15.2 million.
- The MWUA has approximately \$181 million in Association Equity as of 9/30/2012.
- If another “Katrina” hurricane event or worse were to occur (a return period of 45 years or more), the MWUA would be hit with a retained loss of around \$72 million (\$15 million SIR, plus the co-insured portions of the layers up to the \$250 million total limit), or about 40% of their equity.
- The MWUA indications include an Underwriting Profit Provision of 0%, which implicitly does not allow for a risk load to cover their retention long term.
- The MWUA, for the Dwelling line of business, has selected rates that imply a profit provision of -13.7%.

It is recommended that the MWUA Board provide support for selected rates given the disparity in comparison with indicated amounts.

ADEQUACY OF REINSURANCE

The examination compared reinsurance premiums paid in the 2012/2013 and 2013/2014 contract years versus other reinsurance programs in neighboring states that provide similar coverage to the MWUA. It was found that the type of coverage purchased by MWUA is similar or better coverage than other entities with similar exposure. Additionally, the premiums paid by MWUA for the various reinsurance layers are equal to or favorable to similar coverage purchased in various jurisdictions.

COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2012, the 2004 and 2005 reinsurance reallocation calculation as required by the January 26, 2012 Mississippi Supreme Court decision had not been completed. An appeal had been filed by Arrowood Indemnity Company ("Arrowood") with the Commissioner pursuant to Mississippi Code Section 83-34-19, resulting from MWUA's denial of Arrowood's request to adjust its statement of participation for the January 1, 2004 to December 3, 2004 period. The Commissioner has not yet made a determination on Arrowood's appeal as of the date of this exam report. 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

In 2013, MWUA expanded its investment strategy. The MWUA Board created and approved an investment policy which became effective March 28, 2013. On July 1, 2013, MWUA entered into an investment consulting services agreement with Graystone Consulting which is a business of Morgan Stanley Smith Barney, LLC; a fiduciary services agreement with Morgan Stanley Smith Barney, LLC; fixed asset manager agreement with Sage Advisory Services, LTD and a service agent agreement with First State Trust Company.

On July 1, 2013, MWUA entered into a line of credit agreement and promissory note with the Mississippi Residential Property Insurance Underwriting Association (“MRPIUA”). 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.

The MWUA rate request to increase dwellings and mobile home/manufactured housing policies by 3.2% and commercial policies by 5% was approved by the MID and is to take effect December 1, 2013.

COMMENTS AND RECOMMENDATIONS

Non-Assessable Insurers Policy Fee and Surcharge - The fee is scheduled to sunset on July 1, 2014. It is recommended that the Non-Assessable Insurers Policy Fee and Surcharge be renewed as the fees are a significant amount of MWUA revenue.

Commission Payments - Five errors were identified in the review of commission payments where commissions were paid at the new policy rate of 12% versus the correct renewal rate of 10%. This was addressed and corrected with staff. It is recommended that the MWUA consider automating this process.

Agent Licensing- Currently, the Association does not have a formal process in place to verify agent/agency license status. HB 1500 specifies that applications shall be made on behalf of the owner of the insurable interest by a licensed resident broker or authorized agent. Although it was later confirmed that the agents/agency were licensed, it is recommended that agents/agency names listed on the policy show exactly as it appears on the agent's license.

Rate Adequacy- The MWUA Board has selected rate level changes that are materially below the indicated changes given their current financial position. It is recommended that the MWUA Board provide support for selected rates given the disparity in comparison with indicated amounts.

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