STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Missouri Housing Authorities Property and Casualty, Inc. for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Missouri Housing Authorities Property and Casualty, Inc. for the period ended December 31, 2012, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Missouri Housing Authorities Property and Casualty, Inc. as of December 31, 2011, be and is hereby ADOPTED as filed and for Missouri Housing Authorities Property and Casualty, Inc. to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 1st day of November, 2013.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

MISSOURI HOUSING AUTHORITIES PROPERTY AND CASUALTY, INC.

FILED
NOV 1 1 2013
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

AS OF
DECEMBER 31, 2012

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

Subject	Page
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Dividends	2
Management	2
Conflict of Interest	3
Corporate Records	3
AFFILIATED COMPANIES	3
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting Practices	4
REINSURANCE:	
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Assets	8
Liabilities, and Fund Balance	9
Statement of Operations	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
SUBSEQUENT EVENTS	11
SUMMARY OF RECOMMENDATIONS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

October 11, 2013
Chesterfield, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

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

MISSOURI HOUSING AUTHORITIES PROPERTY AND CASUALTY, INC.

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 173 Chesterfield Business Parkway, Chesterfield, MO 63005, telephone number (636) 530-6181. This examination began on August 26, 2013, and was completed on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2012, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

There were no prior examination report comments or recommendations.

HISTORY

General

The Company was formed in December 1988, under Chapter 537 RSMo (Risk Management for Public Entities). The Company's purpose is to provide general liability, property and automobile property and liability coverages to public housing authorities located in Missouri. As of December 31, 2012, 104 housing authorities were members of the Company.

Dividends

Dividends are made in the form of premium reductions and are paid at the board of directors' discretion. The amount paid to each member is a function of the length of time as a member and the amount of premium paid during that time period. Dividends in the form of premium reductions paid during the examination period were: $835,480 paid during 2009, $475,873 paid during 2010, and $554,887 paid during 2012. No dividend/premium reductions were paid during 2011.

Management

The board of directors consists of nine members as authorized by the bylaws. Members serving as of December 31, 2012, were as follows:

Name and Address	Occupation	Term
David Hayes Marshall, Missouri	Executive Director Marshall Housing Authority	2011-2014
Carole King Sikeston, Missouri	Executive Director East Prairie Housing Authority	2011-2013
Carrol Lindley Bernie, Missouri	Executive Director Bernie Housing Authority	2012-2015
Jack McCord Hannibal, Missouri	Executive Director Hannibal Housing Authority	2012-2015

Ed Miller Independence, Missouri	Executive Director Independence Housing Authority	2011-2014
Matt Moran Joplin, Missouri	Executive Director Joplin Housing Authority	2010-2012
Diane Morris Brookfield, Missouri	Executive Director Brookfield Housing Authority	2009-2012
Susan Rollins St. Louis, Missouri	Executive Director St. Louis County Housing Authority	2012-2015
Reba Williams West Plains, Missouri	Executive Director West Plains Housing Authority	2011-2014

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2012, were as follows:

David Hayes	President
Matt Moran	Vice-President
Ed Miller	Treasurer
Reba Williams	Secretary
Susan McNary	Chief Executive Officer

Conflict of Interest

Directors and officers are required to complete a "Code of Ethics" statement upon taking office, and annually thereafter. The Company's bylaws also require directors and officers to disclose any conflicts that may arise after taking office. No material conflicts were noted.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Amendments to the Bylaws made during the examination period were properly approved by the Board of Directors. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

AFFILIATED COMPANIES

The Company is not a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions), however, during the exam period the Company was affiliated with

Captive Housing Insurance Company, Ltd. (CHIC). The Company withdrew from that relationship as of January 1, 2011. The agreement with CHIC is described in detail in the Reinsurance Section of this report.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of $1,000,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is $150,000. The Company maintains adequate other liability and property insurance, including errors and omissions liability insurance and workers compensation insurance.

EMPLOYEE BENEFITS

The Company has one part-time and two full-time employees. The full-time employees receive a variety of employee benefits that include paid leave, life and health insurance and a 401(k) plan. Based up on the number of hours worked, the part-time employee was eligible to participate in the 401(k) plan in 2012.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP under Chapter 537 RSMo (Risk Management for Public Entities). Membership is comprised exclusively of housing authorities located throughout Missouri. At December 31, 2012, the Company had 104 members.

The Company contracts with consultants to perform many of its insurance functions. The contracts in place as of December 31, 2012 are described as follows:

Actuarial Services Contract
Financial Risk Analysts, LLC provided actuarial services, including year-end analysis of loss and loss adjustment expense reserves and funding for the subsequent year.

Brokerage Contract
Towers Watson provided insurance and consulting advisory services, including reinsurance brokerage services and coverage determination. Compensation was derived solely from

reinsurance commissions.

Claims Administration Contract
Corporate Claims Management Inc. (CCMI) provided claims administration, recordkeeping, loss control and prevention services for the Company. The Company paid CCMI based on a schedule of fees varying by the types and magnitude of the claim.

Co-Agent Agreement
The Company contracted with Wells Fargo Insurance Services of Missouri to facilitate the provision of employee benefits and ancillary coverage to its members. The Company shared commissions earned on policies provided to its members.

Investment Agreement
The Company's investments were managed by an unrelated party, SagePoint Financial, Financial Adviser, Carolyn Cash of Cash Financial Group. The Company paid a management fee based on returns. The funds were under the management of Genworth, a third party money manager, with additional fees based on returns as well as annual custodial fees, which were paid quarterly.

Property Valuation Services
The Company entered into an insurance valuation services contract with CBIZ.

Sponsorship and Services Agreement
The Company entered into a Sponsorship and Services Agreement with Midwest Public Risk and AHRMA Exchange, to assist members who wish to purchase workers compensation, employee benefits and various lines of coverage for affordable housing affiliates. A service fee is paid to the Company on collected premium.

Policy Forms and Underwriting Practices

The Company issues four separate policy forms to its members. The policy forms provide general liability, employment practices liability, property and auto coverages. The following schedule outlines the coverages, limits and deductibles for each policy form:

Policy	Limits	Deductible
Liability:		
General	$2,657,587	$0
Directors and Officers	$2,657,587	$0
Automobile	$2,657,587	$0
Employment Practices	$2,657,587	$1,000 + $100 per employee
Property:		
General	Replacement Cost	$1,000-$10,000
Automobile	$50,000	$250

The Company requires housing authorities to sign a membership agreement upon entering the pool. The membership agreement documents the responsibilities of the Company and its members.

Advertising and Sales Materials

The Company has minimal advertising. Most promotion is performed through personal contact.

Treatment of Policyholders

The Company is not required under Chapter 537 RSMo to maintain a log of complaints submitted by policyholders. The Company appears to address all concerns of its members.

REINSURANCE

Assumed

None.

Ceded

Property Coverage

During 2009 and 2010, the Company's first layer of property reinsurance was placed with Captive Housing Insurance Company, Ltd., (CHIC) a Vermont captive insurer created by the Company in concert with four other housing authority pools in 1996. Each pool contributed $50,000 cash and a $150,000 irrevocable letter of credit to capitalize the company. CHIC also signed an agreement with each member stating that the $200,000 contribution would be returned to members within five years should they withdraw from the pool. The Company withdrew from the pool effective January 1, 2011. As of the examination date, CHIC had not yet returned the cash deposit, nor released the irrevocable letter of credit.

As of December 31, 2012, the Company has three layers of excess of loss agreements in place. The first layer is an excess of loss agreement with Illinois Union Insurance Company, providing coverage for losses in excess of $100,000 per occurrence for each housing authority, subject to a $1,000 deductible, up to $10,000,000. The second layer is with Homeland Insurance Company of New York, providing coverage up to $25,000,000 above the first layer. The third layer is with Commonwealth Insurance Company, providing coverage up to $25,000,000 above the second layer.

Liability Coverage

During 2009 and 2010, CHIC reinsured liability losses in excess of $100,000 retention per occurrence up to $2,000,000. In addition to the $100,000 retention, the reinsurance limit of liability was also in excess of an additional aggregate retention of $100,000. Once the Company has paid the full aggregate retention, CHIC was responsible for $2,000,000 per occurrence in excess of the $100,000 deductable.

As of December 31, 2012, the Company reinsures liability losses in excess of $100,000 for each occurrence up to $2,900,000, through an agreement with Evanston Insurance Company.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The Company's 2012 financial statements were audited by the accounting firm, James E. Kinkead, P.C. The audit workpapers were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Financial Risk Analysts, LLC.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2012, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

Current Assets:	
Cash and Cash Equivalents	$2,047,964
Investments – Trading Securities, at Fair Value	11,225,073
Premiums Receivable	29,490
Reinsurance Recovery	658,543
Other Receivables	6,916
Prepaid Expenses	23,087
Total Current Assets	**13.991,073**
Noncurrent Assets:	
Property and Equipment:	
Building	269,980
Furniture and Fixtures	53,414
Total Property and Equipment	**323,394**
Captive Deposit	$50,000
Total Assets	**$14,364,467**

LIABILITIES, AND FUND BALANCE

Current Liabilities:	
Reserve for Losses	$1,123,012
Unearned Premiums	2,344,330
Accounts Payable and Accrued Liabilities	176,006
Total Current Liabilities	**3,643,348**
Fund Balance:	
Specific Loss Reserve Fund Balance	2,100,000
Special Development Reserve Fund Balance	3,037,870
Premium Reduction Reserve	492,808
Special Building Reserve	61,149
Unreserved Fund Balance	5,029,292
Total Member Balances	**10,721,119**
Total Liabilities and Member Balances	**$14,364,467**

STATEMENT OF OPERATIONS

Revenues:	
Premiums Earned	$3,527,779
Premiums Ceded-Reinsurance	(1,084,417)
Net Premiums Earned	**2,443,362**
Net Investment Income	1,005,677
Commissions	74,310
Total Revenues	**3,523,349**
Expenses:	
Losses and Loss-Adjustment Expenses	1,580,787
Dividends Paid to Members	554,887
General and Administrative Expenses	805,886
Loss on Sale of Assets	6,381
Total Expenses	2,947,941
Net Income (Loss)	**$575,408**
Members Fund Balance, Beginning of Year	$10,145,711
Net Income (Loss)	575,408
Members Fund Balance, End of Year	**$10,721,119**

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Missouri Housing Authorities Property and Casualty, Inc., during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
City of St. Louis)

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

Jennifer R. Danz

Jennifer R. Danz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 9th day of Sept., 2013.

My commission expires:

5-11-2016

Andrea V. Moffatt

Notary Public

SUPERVISION

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

ANDREA V. MOFFATT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: May 11, 2016
Commission Number: 12552590

Michael Shadowens, CFE
Audit Manager – St. Louis
Missouri DIFP