

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

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

### ORDER

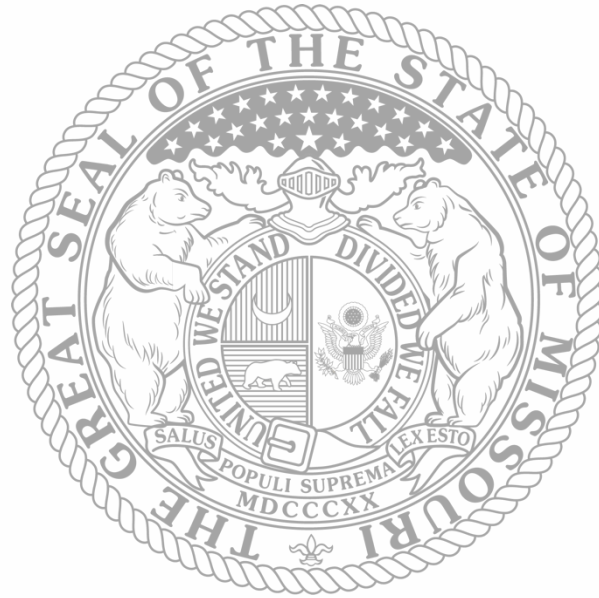
After full consideration and review of the report of the financial examination of Missouri Housing Authorities Property and Casualty, Inc. for the period ended December 31, 2022, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance 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 finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

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, 2022, 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) 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 27<sup>th</sup> day of February, 2024.



*Chlora Lindley-Myers*  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF  
FINANCIAL EXAMINATION OF

# MISSOURI HOUSING AUTHORITIES PROPERTY AND CASUALTY, INC.

AS OF  
DECEMBER 31, 2022

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, MO  
January 25, 2024

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

Director Lindley-Myers:

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

**Missouri Housing Authorities Property and Casualty, Inc.**

hereinafter referred to as such, as MHAPCI, or as the Company. Its administrative office is located at 173 Chesterfield Business Parkway, Chesterfield, Missouri, 63005. The fieldwork for this examination began on June 27, 2023, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of MHAPCI. The last examination of the Company by the Department covered the period of January 1, 2013 through December 31, 2017. The current examination covers the period of January 1, 2018 through December 31, 2022, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

**Procedures**

This examination was conducted using the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri. Standard examination procedures were modified as necessary under the circumstances.

**SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

**COMPANY HISTORY**

**General**

The Company was incorporated on November 2, 1988 as a non-profit, social welfare organization to provide property, liability, and other insurance coverages for public housing authorities in Missouri. MHAPCI operates under the provisions of Sections 537.600 to 537.650 RSMo (Sovereign Immunity).

**Dividends and Assessments**

The Company has a signed agreement with each member that has various provisions including providing the Board of Directors the authority to declare and/or pay dividends. However, there were no dividends declared or paid in the examination period.

The Articles of Association permits the Board of Directors to approve assessments of members in the amount deemed necessary. Any assessment is limited to \$200 per coverage unit on a per member, per year basis. There were no assessments made in the examination period.

**Mergers and Acquisitions**

The Company formed a wholly owned subsidiary, Affordable Housing Risk Solutions, Inc. (AHRS), which was incorporated on August 27, 2021. The purpose of AHRS is to act as a broker to place insurance for members that have properties that are not eligible for coverage through MHAPCI due to a level of non-public ownership. The Company was not party to any other mergers or acquisitions during the examination period.

**MANAGEMENT AND CONTROL****Board of Directors**

The Board of Directors is elected at the annual member meeting. The Bylaws specify that an eligible director must serve in the Executive Director position with a member housing authority. Directors are elected in staggered, three-year terms. The Company's Bylaws specify that the Board of Directors shall consist of nine members. The following directors were elected and serving, as of December 31, 2022:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Housing Authority</u></b>
Michael Bishop	Executive Director	Independence
Darlene Combs	Executive Director	Thayer
Melissa Mahurin	Executive Director	Salem
Matt Moran	Executive Director	Joplin
Jeff Penland	Executive Director	St. Joseph
Patti Preston	Executive Director	Kirksville
Bob Rorah	Executive Director	Booneville
Darrin Taylor	Executive Director	Poplar Bluff
Katrena Wolfram	Executive Director	Springfield

**Officers**

The officers elected and serving, as of December 31, 2022, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Darrin Taylor	President
Patti Preston	Vice President
Darlene Combs	Secretary
Jeff Penland	Treasurer

The Bylaws also authorize a Chief Executive Officer, which has been Susan McNary since 1999.

### **Committees**

The Bylaws require a Nominating Committee to nominate qualified persons to serve as a director. The Bylaws allow for additional committees to be appointed by the President or the Board of Directors. There was a Safety and Loss Control Committee and an Investment Committee active during the examination period.

### **Corporate Records**

The Company's Articles of Association and Bylaws were reviewed to determine compliance and the purpose of any amendments. There were no amendments to the Articles of Association during the examination period.

The Bylaws were amended and restated in June 2019 to create an inactive class of membership, which allows a member to maintain membership if there is an inability to purchase insurance coverage from MHAPCI. The Bylaws were amended and restated in December 2019 to add language that members are not liable for debts, liabilities and obligations of other members. The Bylaws were amended and restated in August 2021 to expand the methods of member voting to include mail, electronic, or other methods approved by the Board of Directors.

The minutes of the Board of Directors' and membership meetings were reviewed for proper approval of corporate transactions.

### **Service Providers**

MHAPCI has a staff of five employees that perform management, policy administration, claims supervision, member services, and other daily business activities. Some business functions are outsourced to third parties. Below is a summary of the significant service providers utilized, as of December 31, 2022:

- **Kerber, Eck & Braeckel, LLP (KEB)** – An external accounting firm that provides accounting and financial statement preparation services.
- **PricewaterhouseCoopers (PwC)** – An actuarial firm that provides rating services and determines the reserves for losses and loss adjustment expenses (LAE).
- **Steadfast Claim Services, LLC** – An independent claim adjusting firm that handles all property claims.
- **ADE Claim Services, LLC** – An independent claim adjusting firm that handles all liability claims.
- **Paule, Camazine & Blumenthal, P.C.** – A law firm that provides legal services and legal advice.
- **ThrottleNet, Inc.** – An information technology (IT) firm that provides various IT services including cybersecurity.

## **TERRITORY AND PLAN OF OPERATIONS**

As of December 31, 2022, there were 103 public housing authorities that were members of the Company. Members are located throughout all geographic areas of Missouri. The largest members have annual premiums over \$200,000 while the smallest members have annual premiums under \$10,000. The largest member in 2022 accounted for 5% of total written premiums.

MHAPCI offers property, general liability, automobile, employment practices liability, and directors' and officers' liability insurance for members. Property insurance is the largest line of business, accounting for 81% of 2022 direct written premiums.

The actuarial firm, PwC, provides annual analysis and recommendations for rate changes. However, the Board of Directors ultimately decides the amount of any rate increases, which varied from the actuarial recommendations during the examination period.

### **GROWTH OF COMPANY**

There was no change in membership during the examination period. The table below shows the Company's direct written premiums for each fiscal year of the examination period.

Year	Written Premiums
2018	\$3,602,675
2019	3,761,862
2020	3,926,737
2021	4,078,237
2022	4,360,429

The small increases in premium each year is the result of normal rate increases and higher property valuations for construction inflation.

### **NET POSITION (SURPLUS)**

Below is a yearly summary of the Company's reported net position (surplus) for the examination period:

As of Date	Surplus
December 31, 2018	\$10,106,646
December 31, 2019	11,543,245
December 31, 2020	11,725,254
December 31, 2021	11,659,118
December 31, 2022	8,599,919

Surplus increased by a combined \$1.9 million during 2018 and 2019 due to positive underwriting results and significant net investment income. There was little change in surplus in 2020 and 2021 as net underwriting losses were offset by net investment income. The large decrease in surplus in 2022 was due to net underwriting losses coupled with a \$1.7 million net investment loss. The 2022 net investment loss was due primarily to unrealized losses on common stock investments.



## REINSURANCE

### **Assumed**

The Company does not assume any business.

### **Ceded**

Losses for property risks are ceded in three layers. The table below summarizes the retentions and coverages for property risks for 2022.

Layer	Company Retention	Reinsurance Coverage	Reinsurers
1 <sup>st</sup> Excess	\$ 750,000	\$10,000,000	National Union Fire Ins. Co. of Pittsburgh (50%) Munich Reinsurance America, Inc. (50%)
2 <sup>nd</sup> Excess	10,750,000	50,000,000	Great American Insurance Company (100%)
3 <sup>rd</sup> Excess	60,000,000	15,000,000	Arch Reinsurance Company (100%)

The Company's property retention increased significantly from \$100,000 per loss occurrence in 2021 and prior years to \$750,000 in 2022. The large increase in retention was necessary due to mitigate large increases in reinsurance premium rates for property risks. There were no changes in the property reinsurance program in 2023.

Reinsurance for all liability risks in 2022 was provided with an excess of loss agreement with Great American Insurance Company. The agreement covers 100% of losses in excess of a \$100,000 retention with a \$5,000,000 per occurrence limit. The retention for liability losses increased to \$150,000 in 2023.

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

## ACCOUNTS AND RECORDS

### **Independent Auditor**

The certified public accounting (CPA) firm Mathieson, Moyski, Austin & Co., located in Lisle, Illinois, performed an audit of the Company's financial statements for the year ending December 31, 2022. The CPA firm Sikich, LLP performed the audits for the years ending December 31, 2021 and December 31, 2020. The CPA firm Hochschild, Bloom & Company, LLP performed the audits for the years ending December 31, 2018 and December 31, 2019. CPA workpapers for the audit of the December 31, 2022 financial statements were reviewed and used in the course of the examination as deemed appropriate.

### **External Actuary**

The loss and LAE reserves at December 31, 2022 were determined by Kevin L. Wick, FCAS, MAAA, for all years in the examination period. Mr. Wick is employed by PwC located in Seattle, Washington.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the financial statements filed by MHAPCI with the Missouri Department of Commerce and Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying “Comments on Financial Statement Items” section reflects any examination adjustments to the amounts reported and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items” section. These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual financial statement item.

**ASSETS**

As of December 31, 2022

Cash and Cash Equivalents	\$ 6,761,624
Investments	9,204,897
Reinsurance Receivable	546,265
Interest Due and Accrued	71,726
Property and Equipment	250,908
Prepaid Expenses	33,713
Other Receivables	842
<b>TOTAL ASSETS</b>	<b><u>\$16,869,975</u></b>

**LIABILITIES AND NET POSITION**

As of December 31, 2022

Loss and LAE Reserves	\$ 3,642,318
Unearned Premiums	4,507,116
Accounts Payable	120,622
<b>TOTAL LIABILITIES</b>	<b><u>\$ 8,270,056</u></b>
<b>NET POSITION (SURPLUS)</b>	<b><u>\$ 8,599,919</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$16,869,975</u></b>

**STATEMENT OF REVENUES AND EXPENSES**

For the Year Ended December 31, 2022

Premiums Written	\$4,360,429
Ceded Premiums	(1,817,119)
Net Investment Income	(1,724,284)
Commissions	25,607
Other Revenues	1,150
<b>Total Revenues</b>	<b>\$ 845,783</b>
Loss and LAE Expenses	\$2,870,876
Administrative Costs and Fees	1,022,906
Loss Control Incentive Awards	11,200
<b>Total Expenses</b>	<b>\$3,904,982</b>
<b>NET INCOME (LOSS)</b>	<b><u>(\$3,059,199)</u></b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

The Company's surplus decreased to \$6.8 million, as of September 30, 2023. Surplus has decreased from \$11.7 million to \$6.8 million for the period from December 31, 2021 to September 30, 2023, which is a 42% decrease. Factors responsible for this decrease include common stock unrealized losses, an increase in the loss retention for property claims from \$100,000 to \$750,000 per occurrence, and higher claim frequency. Management and the Board of Directors have addressed the decrease in surplus by approving a 30% rate increase in 2024 and reducing the holdings of common stock in the investment portfolio during 2023.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri            )  
  )    ss  
County of Cole            )

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Missouri Housing Authorities Property and Casualty, Inc., 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.

*Tim Tunks*

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Tim L. Tunks, CPA, CFE  
Examiner-In-Charge  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 8<sup>th</sup> day of February, 2024.

My commission expires: March 30, 2027 *Hailey Luebbert*  
\_\_\_\_\_  
Notary Public



HAILEY LUEBBERT  
NOTARY PUBLIC - NOTARY SEAL  
STATE OF MISSOURI  
MY COMMISSION EXPIRES MARCH 30, 2027  
OSAGE COUNTY  
COMMISSION #15634366

**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 the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri has been confirmed.

*Michael R. Shadowens*

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Michael Shadowens, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance