

# 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 & Casualty, Inc as of  
December 31, 2008

### ORDER

After full consideration and review of the report of the financial examination of Missouri Housing Authorities Property & Casualty, Inc for the period ended December 31, 2008, 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 report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Missouri Housing Authorities Property & 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 mentioned in the General Comments and/or 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 June 18, 2009.



A handwritten signature in black ink, reading "John M. Huff", with a horizontal line extending to the right.

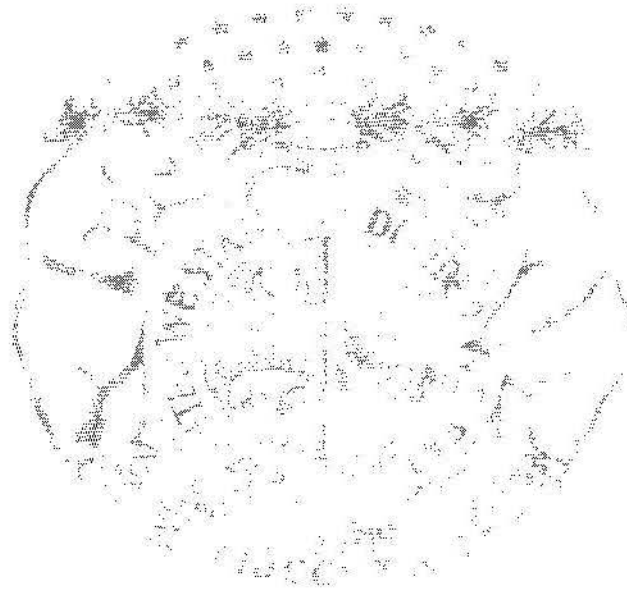
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

MISSOURI HOUSING AUTHORITIES  
PROPERTY AND CASUALTY, INC.

AS OF  
DECEMBER 31, 2008

**FILED**  
JUN 2 8 2009  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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Chesterfield, MO  
April 28, 2009

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

Mr. Huff:

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

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

also referred to "MHAPCI" and as the "Company." The examination was conducted at the Company's office at 173 Chesterfield Business Parkway, Chesterfield, Mo. 63005, telephone number (636) 530-6181. This examination began on April 6, 2008, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior financial examination of Missouri Housing Authorities Property and Casualty, Inc., was performed as of December 31, 2005. The examination was conducted by an examiner from the state of Missouri.

The current financial examination covers the period from January 1, 2006, through December 31, 2008. The examination was conducted by an examiner from the state of Missouri.

This examination also included material transactions and/or events occurring after December 31, 2008.

**Procedures**

This examination was conducted using the practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri.

**Comments Previous Examination**

The general comments and recommendations in the previous examination report and the Company's response and/or subsequent action taken by the Company are listed below.

1. Comment: Accounts and Records

The Company does not have any custodial agreements in place. We recommend that the Company execute a custodial agreement with Citizens Bank and/or any other institution who acts as a custodian of the Company's securities in the future. This agreement should include a provision that the custodian is obligated to indemnify the Company for any loss of securities in the custodian's custody.

Company's Response:

We have developed a custodial agreement with Citizen's National Bank that will serve as our agreement in the event that the Bank holds any original investment instruments on our behalf.

Current Findings:

The Company has complied with the recommendation.

2. Comment: Accounts and Records

A Board resolution passed in 1997 requires that checks under \$100,000 be signed by two individuals and that checks over \$100,000 be signed by three. Our examination revealed that a number of checks were signed by only one individual. The multiple signatures represent an important segregation of duties. We recommend that the Company ensure that proper check signing procedures are followed at all times in the future.

Company's Response:

The second item was the clearance of several checks with only one signature. That was a mistake. We have added an additional review of checks in order to assure that it does not occur again.

Current Findings:

Due to the limited personnel, controls are limited but the Company has added an additional review in order to comply with the prior examination comment and no exceptions were noted.

## 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. There are 103 housing authorities that are members of the Company.

### Capital Stock

The Company is a not-for-profit entity and has no capital stock.

### Dividends

From 1997 through 1999, the Company redistributed all original contributed capital. Subsequently, the Company paid dividends in 2001 and 2003, totaling \$755,311 and made distributions in the form of premium reductions in 2000, 2005, and 2008, totaling \$783,009. The premium reduction in 2008 was \$290,102. Dividends and premium reductions are paid at the board of directors' discretion and 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.

### Management

The board of directors consists of nine members as authorized by the bylaws. Members serving as of December 31, 2008, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Donna Dunwoody	Executive Director Moberly Housing Authority
David Hayes	Executive Director Marshall Housing Authority
Carole King	Executive Director East Prairie Housing Authority
Carol Lindley	Executive Director Bernie Housing Authority
Jack McCord	Executive Director Hannibal Housing Authority
Diane Morris	Executive Director Brookfield Housing Authority
Allen Pollock	Executive Director Jefferson City Housing Authority
Joyce Short	Executive Director Noel Housing Authority
Reba Williams	Executive Director West Plains Housing Authority

Officers serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Title</u>
Allen Pollock	President
Carole King	Vice President

Reba Williams	Secretary
Diane Morris	Assistant Secretary
David K. Hayes	Treasurer
John D. Callen	Chief Executive Officer

### **Conflict of Interest**

Directors and officers are required to complete a "Code of Professional Ethics Statement" upon taking office. The Company's bylaws also require directors and officers to disclose any conflicts that may arise after taking office. There were no material conflicts noted.

### **Corporate Records**

The minutes of the Board of Directors provided sufficient documentation of major corporate transactions.

The Board of Directors approved the prior examination report during its April 12, 2007 board meeting.

### **Acquisitions, Mergers and Major Corporate Events**

There were no acquisitions, mergers or major corporate events during the examination period.

### **Surplus Debentures**

The Company has not issued any surplus debentures.

### **AFFILIATED COMPANIES**

The Company is not a member of an Insurance Holding Company System as defined by section 382.010 RSMo (Definitions), however, the Company is related to Captive Housing Insurance Company, Ltd., (CHIC). That relationship, including the formation of CHIC, is described in the Reinsurance Section of this report.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is the named insured in a crime policy that provides coverage for employee dishonesty. Coverage of \$1,000,000 is provided. The Company maintains other liability and property insurance, which appears adequate for the protection of Missouri Housing Authorities Property and Casualty, Inc.

### **EMPLOYEE BENEFITS**

The Company has two full time employees who receive a variety of employee benefits that include paid leave, life and health insurance and a 401(k) plan.

### **STATUTORY DEPOSITS**

The Company is not required to maintain a statutory deposit.



## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 537 RSMo (Risk Management for Public Entities). Membership is comprised exclusively of housing authorities located throughout Missouri. At December 31, 2008, the Company had 103 members.

The Company contracts with consultants to perform many of its insurance functions. These contracts are described as follows:

### Brokerage Contract

Arthur J. Gallagher & Company provides various consulting and advisory services that include brokerage services, underwriting advice, rate determination information and reinsurance consulting. The Company pays a fixed rate per housing unit insured plus a bonus based on the Company's income performance.

### Claims Administration Contract

Corporate Claims Management Inc. (CCMI) replaced Gallagher Bassett Services, Inc. in 2008 as the provider of claims administration, adjudication and loss control and prevention services for the Company. The Company pays CCMI based on a schedule of fees varying by the types of claims.

### Investment Agreement

The Company's investments are managed by an unrelated party, Julia Bandy, Inc. The Company pays a management fee of eight percent of the return earned on investments under her control. This fee is paid quarterly; however, nothing is paid if the returns are negative.

### Co-Agent Agreement

The Company contracted with the Daniel and Henry Company to share commissions earned on policies providing group benefits to the Company's members.

### 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:

<u>Policy</u>	<u>Limits</u>	<u>Deductible</u>
Liability:		
General	\$2,000,000	\$0
Directors and Officers	\$2,000,000	\$0
Automobile	\$2,000,000	\$0
Employment Practices	\$2,000,000	\$1,000 + \$100 per employee

Property:		
General	Replacement Cost	\$1,000
Automobile	\$50,000	\$250

The Company also 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**

The Company's first layer of property reinsurance is placed with Captive Housing Insurance Company, Ltd., (CHIC) a Vermont captive insurer created by MHAPCI 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. During 1999, two of the members withdrew from the pool.

CHIC reinsures property losses in excess of \$100,000 per occurrence up to \$500,000. The \$100,000 retention is on top of a \$5,000 deductible. The \$100,000 per occurrence retention is subject to a \$615,000 aggregate limit after which CHIC is responsible for the full \$500,000 loss per occurrence in excess of the \$5,000 deductible.

The Company had an aggregate excess of loss reinsurance agreement with Westchester Surplus Lines Insurance Company in 2008, to provide property coverage in excess of \$500,000 reinsurance coverage provided by CHIC up to a limit of \$10,000,000 per occurrence. In 2009, this coverage is provided by Illinois Union Insurance Company.

The Company also has an aggregate excess of loss reinsurance agreement with Homeland Insurance Company of New York to provide a \$15,000,000 layer of coverage in excess of the first \$10,000,000 loss per occurrence.

### Liability Coverage

CHIC reinsures 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 is also in excess of an additional aggregate retention of \$100,000. Once the Company has paid the full aggregate retention, CHIC is responsible for \$2,000,000 per occurrence in excess of the \$100,000 deductible.

### **ACCOUNTS AND RECORDS**

The Company's 2008 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 as of December 31, 2008, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional 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 in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

## ASSETS

**Current Assets:**

Cash and Cash Equivalents	\$14,541,143
Interest Receivable	958
Reinsurance Recovery	398,219
Other Receivables	13,727
Prepaid Expenses	11,715
<b>Total Current Assets</b>	<b><u>\$14,965,762</u></b>

**Noncurrent Assets:**

Property and Equipment:

Building	\$307,228
Furniture and Fixtures	45,677
<b>Total Property and Equipment</b>	<b><u>\$352,905</u></b>

Captive Deposit	<u>\$50,000</u>
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<b>Total Assets</b>	<b><u>\$15,368,667</u></b>
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## LIABILITIES, AND FUND BALANCE

**Current Liabilities:**

Reserve for Losses	\$838,699
Unearned Premiums	1,602,616
Accounts Payable and Accrued Liabilities	124,028
Current Portion of Notes Payable	11,340
<b>Total Current Liabilities</b>	<u><b>\$2,576,683</b></u>

**Noncurrent Liabilities:**

Note Payable	\$232,234
Less: Current Portion	(11,340)
<b>Total Noncurrent Liabilities</b>	<u><b>\$220,894</b></u>

**Fund Balance:**

Specific Loss Reserve Fund Balance	\$2,165,000
Special Development Reserve Fund Balance	5,702,668
Special Reinsurance Reserve	336,822
Premium Reduction Reserve	838,979
Special Transition Reserve	250,000
Unreserved Fund Balance	3,277,621
<b>Total Member Balances</b>	<u><b>\$12,571,090</b></u>

<b>Total Liabilities and Member Balances</b>	<u><b>\$15,368,667</b></u>
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## STATEMENT OF OPERATIONS

<b>Revenues:</b>	
Premiums Earned	\$2,884,102
Premiums Ceded-Reinsurance	<u>(965,898)</u>
<b>Net Premiums Earned</b>	<b>1,918,204</b>
Net Investment Income	2,698,882
Commissions	90,825
Captive Management Account	15,000
Other	<u>1,872</u>
<b>Total Revenues</b>	<b>4,724,783</b>
<b>Expenses:</b>	
Losses and Loss-Adjustment Expenses	765,344
Underwriting and Risk Management Expenses	132,899
Dividends Paid to Members	290,102
General and Administrative Expenses	548,520
Loss on Sale of Assets	<u>399</u>
<b>Total Expenses</b>	<b>1,737,264</b>
<b>Net Income (Loss)</b>	<b>\$2,987,519</b>
Members Fund Balance, Beginning of Year	\$9,583,571
Net Income (Loss)	<u>2,987,519</u>
<b>Members Fund Balance, End of Year</b>	<b><u>\$12,571,090</u></b>

**NOTES TO FINANCIAL STATEMENTS**

None

**EXAMINATION CHANGES**

None

**GENERAL COMMENTS AND/OR RECOMMENDATIONS**

None

**SUBSEQUENT EVENTS**

None

**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 St. Louis )

I swear on my oath 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 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.

Wyatt Sample  
Wyatt R. Sample, CFE  
Examiner-in-Charge, Department of Insurance,  
Financial Institutions and Professional Registration

Sworn to and subscribed before me this 17<sup>th</sup> day of April.  
My commission expires:

August 8, 2009

Lawrence B. Brown  
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 applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri has been confirmed.

Michael Shadowens  
Michael Shadowens, CFE  
Audit Manager, Department of Insurance,  
Financial Institutions and Professional Registration