

**EXAMINATION REPORT**  
**OF**  
**INSURANCE PLACEMENT FACILITY OF DELAWARE**  
**AS OF**  
**DECEMBER 31, 2018**

Office of the  
Commissioner



Delaware  
Department of Insurance

REPORT ON EXAMINATION  
OF  
INSURANCE PLACEMENT FACILITY OF DELAWARE  
AS OF  
DECEMBER 31, 2018

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink that reads "Trinidad Navarro".

Trinidad Navarro  
Insurance Commissioner

Dated this 18<sup>th</sup> day of May, 2020

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April 15, 2020

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
1351 West North Street  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 19.027, dated November 22, 2019, an examination has been made of the affairs, financial condition and management of

**INSURANCE PLACEMENT FACILITY OF DELAWARE**

herein after referred to as the Facility or DE Fair Plan, formed under the laws of the State of Delaware as an Association. The examination was conducted at the main office of the Facility, located at 190 N Independence Mall W, Suite 301, Philadelphia, PA 19106. The report for this examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Facility. The previous regulatory examination of the Facility covered the four-year period from January 1, 2011 through December 31, 2014. This examination covered the four-year period from January 1, 2015 through December 31, 2018, and encompasses a general review of transactions during the period, the Facility's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial

condition of the Facility as of December 31, 2018. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination is being coordinated with the Insurance Placement Facility of Pennsylvania (PA FAIR Plan) and the West Virginia Essential Property Insurance Association (WV FAIR Plan). The Pennsylvania Department of Insurance (PADOI) called this examination in accordance with the Handbook's guidelines, through the National Association of Insurance Commissioner's (NAIC) Financial Exam Electronic Tracking System. The PA FAIR Plan, DE FAIR Plan, and WV FAIR Plan are each single-state governmentally mandated insurers that are not part of a holding group.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Facility, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Facility were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Facility.

During the course of this examination, consideration was given to work performed by the Facility's external accounting firm Mazars USA LLP (Mazars). Certain auditor work papers of the 2018 Mazars audit of the Facility have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material changes in financial statements as a result of this examination.

#### **FACILITY HISTORY**

The DE FAIR Plan is an unincorporated association which commenced operations on October 28, 1968. The DE Fair Plan was established by insurers in accordance with the provisions in the Delaware Fair Plan Act (56 Delaware Laws, Chapter 468 Section 2, effective November 1, 1969, as amended), now known as 18 *Del. C.* 4106, for the purpose of making basic property insurance available to those persons who have an insurable interest in real or tangible personal property located in the State of Delaware, and who have been unable to secure such insurance from the voluntary insurance market.

The Facility is organized in the legal form of a partnership, owned by Member Companies, which are all property and casualty insurers authorized or engaged in writing

property insurance within the State of Delaware. Each of the Member Companies own a share of the DE FAIR Plan and participates in its expenses and in its profits and losses in proportion to their written premium.

### Capitalization

As of December 31, 2018, the Facility reported \$78,760 in policyholder surplus. They are an assigned risk insurer which does not have a minimum capital and surplus requirement. If they need additional capital, DE FAIR Plan assesses Member Companies for amounts sufficient to meet its claim obligations and operating capital needs as determined by management, the Accounting Finance Committee and as approved by the DE FAIR Board of Directors (Board).

The Company is an Association and has no formal stock certificate ownership. Voting ownership is determined by premium written in the State.

No dividends were paid. Members are assessed for losses. During the examination period, the Facility had assessed its members \$1,775,000 for losses.

### **MANAGEMENT AND CONTROL**

Pursuant to, and as implemented by the Company's Constitution, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board. The Board shall consist of at least eleven members. The Board as of December 31, 2018, was comprised of eleven members, each elected or appointed in accordance with the Company's constitution. Each Director shall hold their office until his successor is elected and qualified, or until resignation or removal.

### Directors

The Board is duly elected in accordance with the Company's bylaws and a listing of members serving as of the period ending December 31, 2018 is as follows:

<u>Director</u>	<u>Insurance Carrier</u>
Nicole Ford (Chairperson)	Allstate Insurance Company
Marybeth Baxter	Nationwide Insurance Company
Dan Harrington	The Travelers Companies, Inc.
Diana Matalka	American Modern Insurance Company
Stacie Palmer	Liberty Mutual Insurance Company
Patricia Quinn	CNA
Nathan Sarcyk	The Hartford
Dave Sponic	Donegal Insurance Companies
Blaine Stanley	Chubb Group
Marci Thomas	State Farm Insurance Company
Jaynine Warner	Farmers Insurance

The bylaws of the Company state the principal officers shall be a President.

Officers

As of December 31, 2018, the Company's principal officer and respective title is as follows:

<u>Name</u>	<u>Title</u>
John M. Ogle	President and Secretary

The Board has four standing committees:

Executive/Finance/Audit  
Accounting/Investment/Statistical  
Claims  
Underwriting



### Corporate Records

The minutes of the meetings of the Board, which were held during the period of the examination were reviewed and determined to be in accordance with the Company's bylaws. The attendance at such meetings, the elections of directors and officers and the approval of general transactions and operations were reviewed and noted. In addition, review of Facility files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Inspection of the Company's files indicated that the Conflict of Interest Statement and the Ethics Code were distributed, completed and returned during the examination period.

### Insurance Holding Facility System

The Company is not a member of an insurance holding company system as defined in 18 *Del. C.* §5001 (4) "Insurance Holding Company System".

The PA FAIR Plan, DE FAIR Plan, and WV FAIR Plan are legally separated single-state governmentally mandated insurers that are considered related parties based on the provisions of Statements of Statutory Accounting Pronouncements (SSAP) 25, Sections 3-4, as they are considered to be affiliates since they are under common control and share the same personnel, who essentially operate under the same policies and procedures. The examiners noted that while there are shared personnel who perform their respective duties for each FAIR Plan, there are times when they must follow the individual policies of each FAIR Plan.

## Agreements with Affiliates

### *Service Agreement*

The DE FAIR Plan has an administrative services agreement with the PA FAIR Plan. The agreement essentially states that the PA FAIR Plan is responsible for the operations of all three FAIR Plans and will distribute expenses as follows:

- Direct expenses incurred for the benefit of a particular state will be charged to the benefiting state.
- Unallocated claim costs will be divided among each FAIR Plan in the ratio in which the number of individual claims of each FAIR Plan bears to the total number of claims of all FAIR Plans.
- All other expenses will be apportioned among the FAIR Plans on a pro rata basis in which the total annual number of policies issued by all FAIR Plans are multiplied by the ratio of policies issued for each individual FAIR Plan by the total annual number of policies issued by all FAIR Plans.

### **TERRITORY AND PLAN OF OPERATION**

The DE FAIR Plan writes basic property (fire) insurance with allied lines coverage (i.e., vandalism and malicious mischief for residential and commercial) that may be purchased in conjunction with a fire policy. The DE FAIR Plan is only licensed and allowed to write business in the State of Delaware. The DE FAIR Plan does not provide liability coverage. During the exam period the Facility's maximum underwriting limits was \$500,000 for occupied dwelling properties. The maximum underwriting limits for commercial properties was \$750,000.

As of December 31, 2018, the Company reported direct written premiums in the amount of \$516,853. Distributions by line of business were as follows:

<u>Lines of Business</u>	<u>Premiums</u>	<u>Percentage of Total</u>
Fire	\$ 274,768	53.2%
Allied lines	\$ 242,085	46.8%
Total	<u>\$ 516,853</u>	<u>100.0%</u>

### Membership

Each insurer, which is authorized to write and is engaged in writing, within the State of Delaware on a direct basis, basic property insurance or any companies thereof contained in a multiple peril policy shall be a member of the Facility. Other insurers may become members, provided they are eligible insurers. During the exam period, the Facility approved an assessment against the 2015, 2016 and 2017 policy year in the amounts of \$525,000, \$250,000, and \$1,000,000, respectively. This amount has been charged directly to members' deficit. The assessment receivable from Member Companies was \$0 as of December 31, 2018.

### REINSURANCE

The DE FAIR Plan has no reinsurance.

### FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Facility with the Department, are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2018
- Statement of Operations for the year ended December 31, 2018
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2015 to December 31, 2018

**Statement of Assets  
As of December 31, 2018**

	<u>Ledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets 2018</u>	<u>Note</u>
Cash	\$ 701,454	\$ -	\$ 701,454	1
Cash equivalents	283,291	-	283,291	1
Uncollected premiums and agents' balances	4,961	1,713	3,248	
Receivable from Par., Subs, & Aff.	64,790	64,790	-	
Aggregate write-ins for other invested assets	945	945	-	
<b>Total Assets</b>	<b><u>\$ 1,055,441</u></b>	<b><u>\$ 67,448</u></b>	<b><u>\$ 987,993</u></b>	

**Liabilities, Surplus and Other Funds  
As of December 31, 2018**

		<u>2018</u>	<u>Note</u>
Losses	\$	74,308	2
Loss adjustment expense		10,960	
Other expenses		16,019	
Unearned premium		258,226	
Advanced premium		19,714	
Amounts withheld or retained by company for account for others		8,518	
Drafts outstanding		30,306	
Aggregate write-ins for liabilities		491,182	
Total Liabilities excluding Separate Accounts business	\$	<u>909,233</u>	
Total Liabilities	\$	<u>909,233</u>	
Common capital stock		-	
Gross paid in and contributed surplus		-	
Unassigned funds (surplus)		<u>78,760</u>	
Total Surplus		<u>78,760</u>	
Totals		<u>78,760</u>	
Totals of Liabilities & Surplus	\$	<u><u>987,993</u></u>	

**Summary of Income  
For the Year Ended December 31, 2018**

	<u>2018</u>
Premiums earned	\$ 541,901
Losses incurred	\$ 361,053
Loss adjustment expense incurred	117,526
Other underwriting expenses incurred	462,456
Total Underwriting deductions	<u>\$ 941,035</u>
Net underwriting gain or (loss)	<u>\$ (399,134)</u>
Net investment income earned	\$ 1,465
Net realized capital gains	-
Net investment gain (loss)	<u>\$ 1,465</u>
Net gain (loss) from agents or premium balances charged off	\$ (9,535)
Aggregate write-ins for miscellaneous income	1,904
Total other income	<u>\$ (7,631)</u>
Net income, before dividends to policyholder, after capital gains or before taxes	\$ (405,300)
Dividend to policyholders	-
Net income, before dividends to policyholder, after capital gains or before taxes	(405,300)
Federal and foreign income taxes incurred	-
Net Income	<u><u>\$ (405,300)</u></u>

**Reconciliation of Capital and Surplus  
For the Period from the Prior Examination  
As of December 31, 2015, to December 31, 2018**

	Operations	Member assessments	Refunds/ assessment chargoffs	Unassigned Funds
1/1/2015				\$ (46,330)
12/31/2015 Operations (1)	\$ (426,227)			-
12/31/2015 Assessments		\$ 525,000		(426,227)
12/31/2015 Refunds/assessment chargoffs			(8,444)	525,000
12/31/2016 Operations (1)	(458,912)			(8,444)
12/31/2016 Assesments		250,000		(458,912)
12/31/2016 Refunds/assessment chargoffs			(5,315)	250,000
12/31/2017 Operations (1)	(276,069)			(5,315)
12/31/2017 Assessments		-		(276,069)
12/31/2017 Refunds/assessment chargoffs			(23,781)	-
12/31/2018 Operations (1)	(479,514)			(23,781)
12/31/2018 Refunds/assessment chargoffs		1,000,000		(479,514)
12/31/2018 Assessments			28,352	1,000,000
12/31/2018 Total	<u>\$ (1,640,722)</u>	<u>\$ 1,775,000</u>	<u>\$ (9,188)</u>	<u>\$ 78,760</u>

(1)- Defined as Net income or loss, change in non admitted assets, change in pension liability, change in accounting principle.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

<b>Note 1 – Cash</b>	<b>\$701,454</b>
<b>Cash Equivalent</b>	<b>\$283,291</b>

All invested assets are maintained in cash or cash equivalent assets. As of December 31, 2018, cash was reported in the amount of \$701,454. Cash Equivalents was comprised of one money market fund in the amount of \$283,291.

<b>Note 2 – Losses</b>	<b>\$ 74,308</b>
<b>Loss Adjustment Expense</b>	<b>\$ 10,960</b>

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2018. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with General Accepted Actuarial Principles and Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, SSAP No. 55.

#### **SUBSEQUENT EVENTS**

During March of 2020, the World experienced a pandemic related to the COVID-19 virus. At the date of this report, the Facility has not been able to quantify the effects of this pandemic on its current or future financial statements. Also, as of the date of this report, the Facility was fully operational and was providing services to its policyholder.

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2018.

#### **SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.



The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the Facility's outside audit firm, Mazars, and the Facility's management and staff was appreciated and is acknowledged.

Respectfully submitted,



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Albert M. Piccoli, Sr., CFE, ACI  
Examiner In-Charge  
State of Delaware

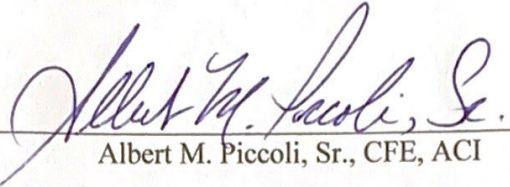


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Anthony Cardone, CPA, CFE  
Supervising Examiner  
State of Delaware

Insurance Placement Facility of Delaware

I, Albert M. Piccoli, Sr., hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 19.027.

  
Albert M. Piccoli, Sr., CFE, ACI