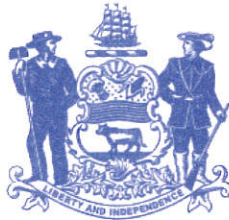


**REPORT ON EXAMINATION**  
**OF**  
**INSURANCE PLACEMENT FACILITY OF DELAWARE**  
**AS OF**  
**DECEMBER 31, 2014**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2014 of the

**INSURANCE PLACEMENT FACILITY OF DELAWARE**

is a true and correct copy of the document filed with this Department.

Attest By: Refyann Brown

Date: December 7, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 7th day of December, 2016.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner



REPORT OF EXAMINATION  
OF THE  
INSURANCE PLACEMENT FACILITY OF DELAWARE  
AS OF  
DECEMBER 31, 2014

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 black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 7th day of December, 2016

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## **SALUTATION**

September 29, 2016

Honorable Karen Weldin Stewart, CIR-ML  
Delaware Insurance Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15.049, dated January 12, 2016, an examination has been made of the affairs, financial condition and management of

### **INSURANCE PLACEMENT FACILITY OF DELAWARE**

hereinafter referred to as the "Facility" or "IPFD". The examination was conducted at the main office of the Facility, located at 190 N Independence Mall W, Suite 301, Philadelphia, Pennsylvania 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 last examination was conducted as of December 31, 2010, by the Department. This examination covered the period of January 1, 2011 through December 31, 2014.

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, assess corporate governance, identify current and prospective risks of the company 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 company 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

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, WeiserMazars, LLP, ("Weiser"). Certain auditor work papers of their 2014 audit 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 material adverse findings or financial adjustments as a result of this examination. Please refer to summary of recommendations for non-adverse findings.

## **COMPANY HISTORY**

### **General**

The Facility, more commonly known as the “FAIR Plan” or “IFPD”, was created by an act of the legislature of the State of Delaware in 1968. “The Delaware FAIR Plan Act” mandates that basic property insurance against fire and other perils be made available for all residential and business properties located in the State of Delaware. The Facility operates as an unincorporated not for profit association. IFPD shares office space and management and employees with the Insurance Placement Facility of Pennsylvania (“IPFPA”) and the West Virginia Essential Property Insurance Association (“WVEPIA”).

## **MANAGEMENT AND CONTROL**

Pursuant to, and as implemented by the Facility’s Constitution, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (“Board”). The Board shall consist of at least eleven members. The Board as of December 31, 2014 was comprised of eleven members, each elected or appointed in accordance with the Facility’s constitution. Each Director shall hold their office until his successor is elected and qualified, or until resignation or removal.

### **Directors**

The Board duly elected in accordance with the Company’s bylaws and serving as of the period ending December 31, 2014 is as follows:

Insurance Placement Facility of Delaware

Director

Patricia A. Quinn (Chairperson)

Principal Occupation

Underwriting Consultant - CNA

Nicole W. Ford (Vice Chairperson)

PA Territorial Product Manager  
Allstate Insurance Company.

Kevin J. Curry

Director, Government Relations  
Personal Insurance Legal Services  
The Travelers Companies, Inc.

Susan A. Erney

Assistant VP and Regional Underwriting Mgr.  
Personal Lines Underwriting  
The Harleysville Insurance Companies

Michael Flaherty

Sr. Director 1, State Operations  
Liberty Mutual Insurance Company

Kurt Husar

Senior Vice President, ACE USA.

Kurt Kiessling

Senior Corporate Counsel, American Modern Ins. Co.

Jitendra Mohnani

The Hartford

Marci Thomas

Operations Manager, State Farm Ins. Co.

Jaynine Warner

Government and Industry Affairs, Farmers Ins.

Dave Sponic

Vice President of Personal Lines, Donegal Insurance Co.

The bylaws of the Facility state the principal officers shall be a President, and such officers or assistant officers or agents for the Board may vary from time to time.

Officers

As of December 31, 2014 the Facility's principal officer and his title is as follows:

Officer

Title

John Ogle

President

The Board has four standing committees:

Executive/Finance/Audit  
Accounting/Investment/Statistical



Claims

Underwriting

The President of the Facility is appointed by the Board and is the only officer of the Company. John Ogle was re-appointed President in 2015 and 2016.

The minutes of the Board meetings which were held during the period of the examination were reviewed and determined to be in accordance with the Facility's bylaws. The attendance at such meetings, the elections of directors and officers and the approvals of investment transactions were reviewed and noted.

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

Insurance Holding Company System

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

Agreements

At December 31, 2014, IPFD was party to the following agreements:

Service Agreement

The Facility shares office space and the services of certain employees with the IPFPA and the WVEPIA, and pays a portion of such joint expenses based on estimates of actual usage.

Effective February 12, 1985 and amended on September 23, 1994, the Company pays a portion of the joint expenses based on allocation methods as set forth in the Service Agreement.

The agreement has remained unchanged during the examination period. The agreement provides the following:

- IPFPA will provide such management and administrative personnel, services and facilities as required by the Facility for proper conduct of its affairs.

- IPFPA will maintain proper records for all operating expenses and costs.
- All direct operating costs, meaning costs incurred solely in the operation of or for the benefit of one facility, will be allocated to the incurring facility.
- The Facility shall reimburse IPFPA for its portion of total operating costs as follows:
  - Unallocated claims costs shall be apportioned by applying the ratio number of claims reported to the total of unallocated claims costs, excluding direct operating costs above.
  - All operating costs, excluding direct costs, shall be apportioned by applying the ratio of the total number of Facility applications to the total number of Facility applications and IPFPA applications, to the total of such other operating costs incurred by IPFPA.
- The IPFPA issues all checks for claims and other payables for the Facility, and then it is reimbursed by the Facility. During 2014, \$1,018,048 was paid by IPFPA on behalf of the Facility. At December 31, 2014, \$136,674 was due to IPFPA.

#### Pensions, Stock Ownership and Insurance Plans

In addition, the Facility in conjunction with IPFPA and the West Virginia plan, offers its active and retired employees health insurance and offers its employees a defined benefit pension plan.

#### Corporate Records

The recorded minutes of the member companies and Board of Directors (Board), were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, for the approval of investment transactions in accordance with 18 Del. C. §1304.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period.

A review was performed for compliance with Code 18 Del. C. § 4919 “Change of directors, officers, notice”: “Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.” The Company is in compliance.

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

As of December 31, 2014, the Company reported direct net written premiums in the amount of \$623,136. All business is written in Delaware. Distribution by line of business was as follows:

<b><u>Lines of Business</u></b>	<b><u>Net Premiums</u></b>	<b><u>Percentage of Total</u></b>
Fire	\$ 349,438	56.1%
Allied lines	\$ 273,698	43.9%
<b>Total</b>	<b>\$ 623,136</b>	<b>100.0%</b>

The Facility writes fire, extended coverage, vandalism and malicious mischief insurance in Delaware, using a standard fire policy. No liability coverage is offered. Of the 1,874 policies issued by the Facility in 2014, 96% of the policies were termed dwelling and 4% were commercial risk. The facility uses un-surcharged ISO Loss rates in its rate pricing. During the exam period IPFD maximum underwriting limits were \$500,000 for occupied dwelling properties. The maximum underwriting limits for commercial properties were \$750,000 for building coverage and \$250,000 on contents, for a total of \$1,000,000.

### **Membership**

Each insurer that 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 2014, the Facility approved a closeout of 2010 and 2011 policy years in the amount of (\$769,028) with an offset assessment against 2013 policy year in the amount of \$769,028. During 2013 the Facility approved an assessment of the 2012 and 2013 policy years for \$700,000. This amount has been charged directly to members' equity in 2013. There was no assessment receivable from member companies as at December 31, 2014, or through September 30, 2016.

### **REINSURANCE**

The Facility did not have any reported reinsurance.

### **FINANCIAL STATEMENTS**

Financial statements, as reported and filed by the Company with the State Department of Insurance, are reflected in the following:

- o Statement of assets, liabilities and surplus
- o Statement of income
- o Reconciliation of surplus for the period since the last examination
- o Supporting schedules and exhibits to the extent needed

**INSURANCE PLACEMENT FACILITY OF DELAWARE  
STATEMENT OF ASSETS  
DECEMBER 31, 2014**

Line Item	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Cash, cash equivalents and short term investments	\$ 1,027,158		\$ 1,027,158	1
Premium and considerations				
Uncollected premiums and agents balances	1,092	\$ 885	207	
Aggregate write-ins	119	119		
Total Assets	<u>\$ 1,028,369</u>	<u>\$ 1,004</u>	<u>\$ 1,027,365</u>	

**INSURANCE PLACEMENT FACILITY OF DELAWARE  
STATEMENT OF LIABILITES AND SURPLUS  
DECEMBER 31, 2014**

	<b>Current Year</b>	<b>NOTE</b>
Losses	\$ 90,100	2
Loss adjustment expense	4,790	
Other expenses	20,955	
Unearned premium	324,452	
Advanced premium	11,132	
Amounts withheld or retained by company for account of others	4,659	
Drafts outstanding	136,674	
Aggregate write-ins for liabilities	480,933	
Total Liabilities excluding Separate Accounts business	<u>\$ 1,073,695</u>	
Total Liabilities	<u><u>\$ 1,073,695</u></u>	
 <b>Capital and Surplus</b>		
Common capital stock	\$ -	
Gross paid in and contributed surplus	-	
Unassigned funds (surplus)	<u>(46,330)</u>	
Total Surplus	<u>\$ (46,330)</u>	
Total Capital and Surplus	<u><u>\$ (46,330)</u></u>	
Total Liabilities, Surplus and Other Funds	<u><u>\$ 1,027,365</u></u>	

**INSURANCE PLACEMENT FACILITY OF DELAWARE  
STATEMENT OF INCOME  
DECEMBER 31, 2014**

Premiums earned	\$ 622,904
Losses incurred	447,798
Loss adjustment expense	98,870
Other underwriting gain or (loss)	431,934
Total Underwriting deductions	<u>\$ 978,602</u>
Net underwriting gain or (loss)	<u>\$ (355,698)</u>
Net investment income earned	29
Net realized capital gains	-
Net investment gain (loss)	<u>\$ 29</u>
Net gain (loss) from agents or premium balances charged off	(1,192)
Aggregate write-ins for miscellaneous income	(205)
Total other income	<u>\$ (1,397)</u>
before taxes	<u>\$ (357,066)</u>
Dividend to policyholders	-
before taxes	<u>\$ (357,066)</u>
Federal and foreign income taxes incurred	-
Net Income	<u>\$ (357,066)</u>

**INSURANCE PLACEMENT FACILITY OF DELAWARE  
RECONCILIATION OF SURPLUS FOR THE PERIOD  
SINCE THE LAST EXAMINATION  
DECEMBER 31, 2014**

	Operations	Member assesments	Refunds/ assessment chargoffs	Unassigned Funds
1/1/2011				\$ 69,261
12/31/2011 Operations (1)	(538,472)			(538,472)
12/31/2011 Assessments		300,000		300,000
12/31/2011 refunds/assesment chargoffs			(13,178)	(13,178)
12/31/2012 Operations (1)	(183,745)			(183,745)
12/31/2012 Assesments		500,000		500,000
12/31/2012 refunds/assesment chargoffs			(26,331)	(26,331)
12/31/2013 Operations (1)	(362,326)			(362,326)
12/31/2013 Assessments		700,000		700,000
12/31/2013 refunds/assesment chargoffs			(7,436)	(7,436)
12/31/2014 Operations (1)	(529,975)			(529,975)
12/31/2014 refunds/assesment chargoffs			45,872	45,872
12/31/2014 Total	\$ (1,614,518)	\$ 1,500,000	\$ (1,073)	\$ (46,330)

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

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

There were no financial adjustments to the Company's financial statements as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

<b>Note 1 – Cash</b>	<b>\$747,155</b>
<b>Short-term Investments</b>	<b>\$280,003</b>

Due to the Facility's recent claim experience, all invested assets are maintained in cash or similar liquid assets. At December 31, 2014, cash was reported in the amount of \$747,155. One-hundred percent of cash was held at Wells Fargo. Short-term investments comprised of one



money market fund in the amount of \$280,003. The Facility's investment portfolio was not held under a custodial agreement with a qualified custodian as required by 18 Del. C. §1304. As such, the following recommendation is noted:

**It is recommended that the Facility's investment portfolio be held under custodial agreement with a qualified custodian as required by 18 Del. C. §1304.**

<b>Note 2 – Losses</b>	<b>\$ 90,100</b>
<b>Loss Adjustment Expense</b>	<b>\$ 4,790</b>

At December 31, 2014, Losses and LAE were reported as follows:

<u>Losses</u>	
Reported Unpaid Losses –Direct	\$ 87,400
Incurred But Not Reported (IBNR)	<u>2,700</u>
Net Losses Unpaid	<u>\$ 90,100</u>

<u>Loss Adjustment Expense</u>	
Adjusting and Other Unpaid	\$ 4,790
Net Loss Adjustment Expense	<u>\$ 4,790</u>

The Facility is exempt from filing an actuarial report with the Delaware Insurance Department. The exam team has reviewed the reserve estimates and has determined that the reserves were reasonably stated as of December 31, 2014.

#### **SUBSEQUENT EVENTS**

There were no significant subsequent events.

#### **COMPLIANCE with PRIOR EXAMINATION RECOMMENDATIONS**

The previous examination made two recommendations. Company is in compliance with recommendation during the period under examination.

#### **SUMMARY OF RECOMMENDATIONS**

There was one recommendation as a result of this examination:

**It is recommended that the Facility's investment portfolio be held under custodial agreement with a qualified custodian as required by 18 Del. C. §1304.**

**CONCLUSION**

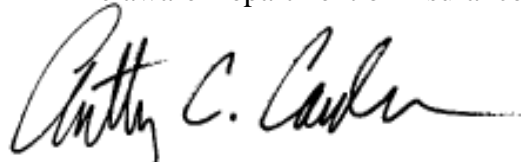
The assistance and cooperation of the Facility's outside audit firm, Weiser, and the Facility's management and staff were appreciated and are acknowledged.

In addition to the undersigned, Anthony Cardone, CPA, CFE, (Examination Supervisor), participated in the examination.

Respectfully submitted,



Albert M. Piccoli, Sr., CFE  
Examiner-In-Charge  
Delaware Department of Insurance



Anthony Cardone, CFE  
Administrative Supervisor  
Delaware Department of Insurance