

Report of Examination of

Ohio FAIR Plan Underwriting Association
Columbus, Ohio

As of December 31, 2014

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Columbus, Ohio
May 10, 2016

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Ohio FAIR Plan Underwriting Association

an Ohio domiciled plan established by ORC 3929.41 and hereinafter referred to as the (“Association.”) The examination was conducted at the Association’s home office, located at 2500 Corporate Exchange Drive, Suite 250, Columbus, Ohio.

Scope of Examination

The Department last examined the Association as of December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2014.

The Department conducted the examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risk of the Association 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 Association 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 Association’s financial statements.

The examination report includes significant findings of fact, as mentioned in Section 3901.07 of the ORC and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusion, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

For all years under examination, the Certified Public Accounting firm of Skoda Minotti provided an unqualified opinion based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors' reports and supporting work papers during the examination.

Management and Control

Board of Directors

Management of the Association is vested in its Board of Governors, which was comprised of the following members as of the examination date:

| Name | Principal Occupation |
|-------------------|--|
| Gene Roberts | Assistant Vice President and Director-Claims Operations State Auto Mutual Insurance Company |
| Joel Kratzer | Vice President-Accounting Motorists Mutual Insurance Company |
| Samuel Fouse | Senior Product Manager Nationwide Mutual Insurance Company |
| Jennifer Keefer | Assistant Vice President-Underwriting Grange Mutual Casualty Insurance Company |
| Arthur Norman. | Team Manager State Farm Insurance Company |
| Terry McClaskey | Executive – Personal Lines Underwriter Westfield Insurance Company |
| Marty Skidmore | Assistant Vice President and Property Claims Manager The Cincinnati Insurance Companies |
| Jason Richardson | Personal Lines Underwriting Manager Safeco Insurance |
| Stephen Federer | Agent Member |
| Stephanie Green | Public Member |
| Richard Zaleski | Public Member |
| Janet Foley Orosz | Public Member |

Officers

As of the examination date, the following executive and senior officers were serving in the designated position:

| Name | Title |
|-----------------|-------------------------------|
| Gene Roberts | Chairman |
| Shawn Brace | President and General Manager |
| Tracy Brininger | Vice President - Claims |
| Jim McKee | Underwriting Manager |
| Shelley Knodell | Accounting Manager |
| Mat Allison | Information System Manager |

Territory and Plan of Operations

The Association provides basic property and certain liability insurance coverage to property owners whose risks are principally in urban areas. The Association operates pursuant to Section 3929.43 of the ORC as a joint underwriting association with member insurance companies. The Association may assess its member insurance companies or return to member insurance companies, by actions of its Board of Governors, such amounts as it deems necessary to cover deficit operations or return operating income.

Coverages available through the Association include fire, extended coverage, vandalism and malicious mischief, homeowner, and certain general liability coverages. The Association's products are sold only in Ohio.

The following schedule illustrates the Association's direct written premium in 2014 by line of business:

| Lines of Business | | |
|----------------------------|---------------------|---------------|
| Homeowners multiple peril | \$16,879,083 | 68.1% |
| Fire | 5,838,652 | 23.5% |
| Allied lines | 2,049,999 | 8.3% |
| Other liability-occurrence | 36,471 | 0.1% |
| Burglary and Theft | 6,971 | 0.0% |
| Totals | \$24,811,176 | 100.0% |

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Association with the Department and audited by the Association's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014**

Assets

| | |
|--|-----------------------------|
| Bonds | \$ 1,350,000 |
| Cash, cash equivalents and short-term investments | <u>9,247,604</u> |
| Subtotal, cash and invested assets | 10,597,604 |
| Investment income due and accrued | 3,044 |
| Uncollected premiums in course of collection | 355,799 |
| Deferred premiums and installments booked but deferred | 2,946,486 |
| Aggregate write-ins for other than invested assets: | |
| Accounts receivable-Mine Subsidence Insurance | 66,878 |
| Earned But Unbilled Assessments | <u>6,136,966</u> |
| Total admitted assets | <u><u>\$ 20,106,777</u></u> |

Liabilities

| | |
|---|--------------------------|
| Losses | \$ 3,193,810 |
| Loss adjustment expenses | 367,289 |
| Commissions payable, contingent commissions and other charges | 260,054 |
| Other expenses | 202,487 |
| Taxes, licenses and fees | 45,903 |
| Unearned premiums | 12,590,582 |
| Advance premium | 589,098 |
| Amounts withheld or retained by company for account of others | 2,274 |
| Aggregate write-ins for liabilities: | |
| Post-retirement benefits | 2,069,028 |
| Pension benefit | 686,807 |
| Uncashed checks | 450,399 |
| Refund payable | <u>22,418</u> |
| Total liabilities | <u><u>20,480,149</u></u> |

Capital and Surplus

| | |
|--|-----------------------------|
| Unassigned funds | <u>(373,372)</u> |
| Total liabilities, capital and surplus | <u><u>\$ 20,106,777</u></u> |

Statement of Income
For the Year Ended December 31, 2014

| | |
|---|----------------------|
| Premiums earned | \$ <u>25,490,612</u> |
| Losses incurred | 11,959,728 |
| Loss adjustment expenses incurred | 2,786,142 |
| Other underwriting expenses incurred | <u>8,033,450</u> |
| Total underwriting deductions | <u>22,779,320</u> |
| Net underwriting gain | <u>2,711,292</u> |
| | |
| Net investment income earned | <u>11,392</u> |
| Net investment gain | <u>11,392</u> |
| | |
| Net gain from agents' or premium balances charged off | 5,072 |
| Finance and service charges not included in premiums | 99,335 |
| Aggregate write-ins for miscellaneous income: | |
| Net effect of changes in Earned But Unbilled | (2,833,644) |
| Mine Subsidence Insurance adjustment services | <u>6,553</u> |
| Total other income | <u>(2,722,684)</u> |
| | |
| Net income | <u>\$ <u>0</u></u> |

Statement of Changes in the Capital and Surplus Account

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---------------------------------------|-------------|---------------|---------------|---------------|---------------|
| Capital and surplus, prior year end | (\$772,429) | (\$3,008,858) | (\$2,523,590) | (\$1,993,244) | (\$1,883,270) |
| Change in non-admitted assets | 399,057 | 2,236,429 | (485,268) | (530,346) | (109,974) |
| Net change in capital and surplus | 399,057 | 2,236,429 | (485,268) | (530,346) | (109,974) |
| Capital and surplus, current year end | (\$373,372) | (\$772,429) | (\$3,008,858) | (\$2,523,590) | (\$1,993,244) |

Notes to Financial Statements

Investments

The Association's investment were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Association's Board of Directors appointed William Hansen, FCAS, MAAA, a Principal with Oliver Wyman Actuarial Consulting, to render the Association's Statement of Actuarial Opinion ("Opinion"). Mr. Hansen prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Association's 2014 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the reserves. On the basis of his analysis, Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2014.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Association as of December 31, 2014, and is summarized as follows:

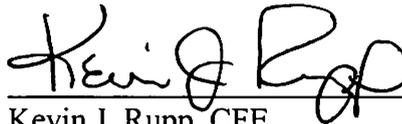
| | |
|--|----------------------|
| Total Admitted Assets | \$ <u>20,106,777</u> |
| Liabilities | 20,480,149 |
| Capital and Surplus | <u>(373,372)</u> |
| Total Liabilities, Capital and Surplus | \$ <u>20,106,777</u> |

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Association during the course of this examination.

In addition to the undersigned, the following representative of the Department participated in this examination: Stephen W. Bishel, CPA.

Respectfully,



Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance



Rick A. Rhoades, CPA
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2014.

Kevin J. Rupp
Examiner-In-Charge

5/11/16
Date

Rick Rhoades
Assistant Chief Examiner

5/11/16
Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 11th day of May, 2016.

[Signature]
(Notary Public)

No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

State of Ohio
County of Franklin

Personally appeared before me the above named, Rick A. Rhoades, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 11th day of May, 2016.

[Signature]
(Notary Public)

No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

Sec 147.03 R.C.
My commission has no expiration date
Notary Public, State of Ohio
Gary A. Moore
Attorney At Law



Sec 147.03 R.C.
My commission has no expiration date
Notary Public, State of Ohio
Gary A. Moore
Attorney At Law

