

Report of Examination of

Ohio FAIR Plan Underwriting Association
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
March 24, 2011

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

Dear Madam:

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, 2004. The current examination covers the period of January 1, 2005 through December 31, 2009.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Association’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process.

For all years under examination, the certified public accounting firm of Skoda Minotti (“Skoda”) provided an unqualified opinion based on statutory accounting principles.

Relevant work performed by Skoda during its annual audit of the Association was reviewed during the examination and incorporated into the examination work papers.

Management and Control

Board of Governors

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

<u>Name</u>	<u>Principal Occupation</u>
Gene Roberts	Assistant Vice President and Director - Claim Operations State Auto Mutual Insurance Company
Michele Lilly	Product Consultant Nationwide Mutual Insurance Company
Jennifer Keefer	Assistant Vice President – Underwriting Grange Mutual Casualty Insurance Company
Joel Kratzer	Vice President – Accounting Motorists Mutual Insurance Company
Sandra Williamson	Personal Lines Underwriting Manager State Farm Insurance Company
Terry McClaskey, Jr.	Executive - Personal Lines Underwriter Westfield Insurance Company
Joseph Johnson	Senior Underwriting Manager Cincinnati Insurance Company
Scott Wick	Regional Manager Safeco Insurance
Ted Briggs	Agent Member
Michael Thomas	Public Member
Janet Foley Orosz	Public Member
Stephanie Green	Public Member

Officers

As of the examination date, the following officers were elected and serving in accordance with the Association's Bylaws:

<u>Name</u>	<u>Title</u>
Gene Roberts	Chairman
Norman Beal	President and General Manager
Shawn Brace	Executive Vice President and Secretary
David Culler III	Vice President – Information Systems
Tracy Brininger	Vice President – Claims

Territory and Plan of Operations

The Association provides basic property and certain liability insurance coverages 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 2009 by line of business:

Homeowners multiple peril	\$14,473,362	69.9%
Fire	4,650,554	22.5%
Allied lines	1,527,325	7.4%
Other liability - occurrence	47,163	0.2%
Burglary and theft	<u>6,348</u>	<u>0.0%</u>
Totals	<u>\$20,704,752</u>	<u>100.0%</u>

Financial Statements

The financial condition and the results of its operations for the five year 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, 2009**

Admitted assets

Cash	<u>\$ 10,560,589</u>
Total cash and invested assets	10,560,589
Investment income due and accrued	1,530
Uncollected premiums and agents' balances in the course of collection	2,014,075
Receivable from parent, subsidiaries and affiliates	6,402,626
Aggregate write-ins for other than invested assets:	
Accounts receivable – Mine Subsidence Insurance	<u>57,462</u>
Total admitted assets	<u>\$ 19,036,282</u>

Liabilities

Losses	\$ 6,031,632
Loss adjustment expenses	643,638
Commissions payable, contingent commissions and other similar charges	201,591
Other expenses	95,294
Taxes, licenses and fees	36,491
Unearned premiums	10,552,901
Advance premium	420,223
Amounts withheld or retained by company for account of others	1,317
Aggregate write-ins for liabilities:	
Post retirement benefits	1,201,206
Pension benefit	885,277
Uncashed checks	679,857
Refunds payable	<u>170,125</u>
Total liabilities	20,919,552

Capital and Surplus

Unassigned funds	<u>(1,883,270)</u>
Surplus as regards policyholders	<u>(1,883,270)</u>
Total liabilities, capital and surplus	<u>\$ 19,036,282</u>

**Statement of Income
As of December 31, 2009**

Premium earned	<u>\$ 21,377,124</u>
Losses incurred	20,104,339
Loss adjustment expenses	3,244,844
Other underwriting expenses incurred	<u>6,174,283</u>
Net underwriting gain	<u>(8,146,342)</u>
Net investment income earned	<u>17,820</u>
Net investment gain	<u>17,820</u>
Net loss from agents' or premium balances charged off	(7,991)
Finance and service charges not included in premiums	60,687
Aggregate write-ins for miscellaneous income:	
Net effect of change in Earned But Unbilled	8,061,520
Mine Subsidence Insurance adjustment services	<u>14,306</u>
Total other income	<u>8,128,522</u>
Net income	<u>\$ 0</u>

**Statement of Changes in the Capital and Surplus Account
(In thousands)**

<u>Capital and Surplus</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital & surplus, prior year end	<u>\$ (2,811)</u>	<u>\$ (958)</u>	<u>\$ (882)</u>	<u>\$ (564)</u>	<u>\$ (19,623)</u>
Change in non-admitted assets	928	(1,853)	(76)	(318)	19,059
Net change in capital and surplus	<u>928</u>	<u>(1,853)</u>	<u>(76)</u>	<u>(318)</u>	<u>19,059</u>
Capital and surplus, current year end	<u>\$ (1,883)</u>	<u>\$ (2,811)</u>	<u>\$ (958)</u>	<u>\$ (882)</u>	<u>\$ (564)</u>

Notes to Financial Statements

Investments

The Association's investment portfolio consists of cash and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles.

Loss and Loss Adjustment Expense Reserves

The Association had outside actuaries Steven M. Jokerst, FCAS, MAAA, certify the total reserves for examination years 2005 and 2006 and William D. Hansen, FCAS, MAAA, certify the total reserves for examination years 2007 to 2009.

Mary D. Miller, Assistant Director - Product Regulation and Actuarial Services of the Department, reviewed the actuarial studies performed and determined the loss and loss adjustment expense ("LAE") reserves presented in the Association's 2009 annual statement appear to make a reasonable provision for the Association's loss and LAE reserves.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Association as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$ 19,036,282</u>
Liabilities	\$ 20,919,552
Surplus as Regards Policyholders	<u>(1,883,270)</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 19,036,282</u>

Acknowledgement

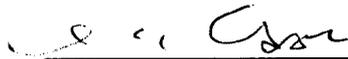
Appreciation is expressed for the assistance extended by the officers and employees of the Association during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Kim Somogyi, CPA; Edward Nagorny, CFE, CPA; Vernard Howard, CFE; Tracy Snow, CPA; Mary D. Miller, FCAS, MAAA; Bradley Schroer; Floyd Meeks, AES, CFE; and Larry Rice, AES, CFE.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
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, 2009.

Jeffery A Becker
Examiner-In-Charge

4/13/11
Date

J. Csan
Assistant Chief Examiner

4/13/11
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, 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/her knowledge and belief.

Subscribed and sworn to before me this 13 day of April, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named, David Cook, 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/her knowledge and belief.

Subscribed and sworn to before me this 13 day of April, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires