

Report on the Examination

As of December 31, 2018

of

The HAI Group

**(Housing Authority Property Insurance, A Mutual Company,
Housing Enterprise Insurance Company, Inc. and
Housing Specialty Insurance Company, Inc.)**

by the





State of Vermont
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

For consumer assistance:
[Banking] 888-568-4547
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www.dfr.vermont.gov

Edmund Malaspina
President
HAI Group
189 Commerce Court
Cheshire, CT 06410

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of the HAI Group for the year ending December 31, 2018 is adopted.

The HAI Group may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

A handwritten signature in blue ink, appearing to read "M. Pieciak", written over a horizontal line.

Michael S. Pieciak, Commissioner

A handwritten date "5/3/2020" in blue ink, written over a horizontal line.

Date



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May 26, 2020

Michael S. Pieciak, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the November 29, 2018 examination order, the Insurance Division's financial examination team has conducted an examination of:

HAI Group
with their offices located at
189 Commerce Court
Cheshire, CT 06410

The examination was performed pursuant to 8 V.S.A. § 3563 in order to ascertain the Group's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



SCOPE OF EXAMINATION

As of December 31, 2018, the financial examination of the HAI Group (Group) was performed, which consisted of the following entities:

- Housing Authority Property Insurance, A Mutual Company (HAPI)
- Housing Enterprise Insurance Company, Inc. (HEIC)
- Housing Specialty Insurance Company, Inc. (HSIC)
- Housing Authority Insurance Risk Retention Group, Inc. (HARRG)

The last financial condition examination conducted by the Vermont Department of Financial Regulation of the Group was as of December 31, 2013 for the previous five-year period. A separate Examination Report has been issued for HARRG.

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2014 through December 31, 2018. The Department conducted the examination in accordance with 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 risks of the Group and evaluate system controls and procedures used to mitigate those risks. The 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 Group 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 Group's financial statements.

This examination report includes significant findings of fact as mentioned in 8 V.S.A. § 3574, 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 conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Group.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement based on this examination.

HISTORY

HAPI formed as a mutual insurer in 1988 for the purpose of providing property and casualty insurance to member public housing authorities within the 49 states where it is licensed. HEIC was incorporated in 2000 and is also licensed in 49 states for the purpose of providing property and casualty insurance coverage to for-profit low income and affordable housing units that are not a part of HAPI's public housing authority program. HEIC is owned by HAPI and HARRG, affiliates, through common management. HSIC was established in 2013 and is licensed in 40 states to provide commercial property and surplus lines insurance for risks which are difficult to place in the traditional market and not covered by either HAPI, HARRG or HEIC. HSIC is owned by both HAPI and HARRG.

MANAGEMENT AND CONTROL

Corporate Records

The Group's home and administrative office is located in Cheshire, Connecticut and the Group also maintains its corporate records at this location. The examiners reviewed the minutes of the Board of Directors and key committees thereof and determined that the minutes adequately

approve and support the Group's transactions and events and that the meetings and minutes are in compliance with the Group's Articles and By-Laws.

HAPI

Members

Public housing Membership in HAPI is limited to individual housing authorities, public housing and development or redevelopment authorities operated for the purpose of providing public housing for low-income persons. Each Member will designate one individual to represent it in all matters. The annual meeting of Members is held in September of each year, or on such other date, as established by the Board of Directors. Members representing ten percent of the votes will constitute a quorum at any meeting of Members.

Board of Directors

The Board of Directors consists of not less than three or more than twenty-one persons and will serve terms of three years. The exact number is determined by the Members. One Director is a resident of the State of Vermont. The Board of Directors may also elect up to four Directors who are not the representative of a Member. The outside Directors serve for a term of one year and may be re-elected to subsequent one-year terms. Except for the Vermont resident Director and the outside Directors, each Director must be the representative of a Member of the Company. The annual meeting of Directors is held immediately following the meeting of the Members. The Directors have general supervision and control of the Company and establish policies and procedures for the Company. Regular meetings take place as the Directors determine necessary and at least one meeting is held within the State of Vermont. A quorum of the Board of Directors consists of 50% of the Directors then in office. When there is a quorum, a majority of those present will determine all matters brought before the meeting.

Officers

The Officers of the HAPI consist of a Chairperson, Vice Chairperson, a President, one or more Vice Presidents, a Secretary and Treasurer and any other Officers considered necessary that may be appointed by the Directors.

HEIC

Shareholders

The annual meeting of Shareholders is held on such date and time as established by the Board of Directors, the purpose of which is determined at the time the meeting is called. Fifty percent of the outstanding shares represented in person or by proxy will constitute a quorum.

Board of Directors

The Board of Directors consists of not less than three or more than twenty-one persons and will be the same Directors of either HAPI or HARRG and serve a term of one year. The annual meeting of Directors is held immediately following the meeting of the Shareholders. The Directors have general supervision and control of the Company. Regular meetings take place as the Directors determine necessary. A quorum of the Board of Directors consists of 50% of the Directors then in office. When there is a quorum, a majority of those present will determine all matters brought before the meeting.

Officers

The Officers of the HEIC consist of a Chairperson, a Vice Chairperson, a President, one or more Vice Presidents, a Secretary and Treasurer and any other Officers considered necessary that may be appointed by the Board of Directors.

HSIC

Shareholders

The annual meeting of Shareholders is held on such date as may be established by the Board of Directors, the purpose of which is determined at the time the meeting is called. Fifty percent of the outstanding shares represented in person or by proxy will constitute a quorum.

Board of Directors

The Board of Directors consists of not less than three or more than twenty-one persons and will be the same Directors of either HAPI or HARRG and a serve term of one year. The annual meeting of Directors is held immediately following the meeting of the Shareholders. The Directors have general supervision and control of the Company and establish policies and procedures. Regular meetings take place as the Directors determine necessary. A quorum of the Board of Directors consists of 50% of the Directors then in office. When there is a quorum, a majority of those present will determine all matters brought before the meeting.

Officers

The Officers of the HSIC consist of a Chairperson, a Vice Chairperson, a President, one or more Vice Presidents, a Secretary and Treasurer and any other Officers considered necessary that may be appointed by the Board of Directors.

The following were elected to the Board of Directors of HAPI, HEIC and HSIC in accordance with the By-Laws of each Company and serving as of December 31, 2018:

<u>Name</u>	<u>Residence</u>
Scott C. Bertrand Enfield Housing Authority	Connecticut
Janaka Casper Community Housing Partners	Virginia

<u>Name</u>	<u>Residence</u>
James J. DiPaolo Housing Authority of the City & County of Denver	Colorado
Douglas G. Dzema Housing Authority of the City of Perth Amboy	New Jersey
John G. Foos Retired	Georgia
Tyrone Garrett City of Long Branch Housing Authority	New York
Christine H. Hart Brattleboro Housing Partnership	Vermont
Edelmiro Hinojosa, Jr. San Antonio Housing Authority	Texas
Edwin T. Lowndes Housing Authority of Kansas City	Kansas
Tony L. Love St. Petersburg Housing Authority	Florida
Jeffrey K. Patterson Cuyahoga Metropolitan Housing Authority	Ohio
Vince D. Pearson Sacramento Housing and Redevelopment Agency	California
Joseph Shuldiner The Municipal Housing Authority of the City of Yonkers	New York
Gary M. Wasson Danville Redevelopment & Housing Authority	Virginia
John L. Williams Housing Authority of Columbus Georgia	Georgia
Russell A. Young Primmer Piper Eggleston & Cramer P.C.	Vermont

The Officers of HAPI, HEIC and HSIC as of December 31, 2018 were as follows:

<u>Name</u>	<u>Title</u>
Edmund J. Malaspina	President
Sarah B. Rodriguez	Treasurer
Amy V. Galvin	Secretary
Jerry W. Williams	Vice President
Paul Lagonigro	Assistant Treasurer
Courtney E. Rice	Assistant Secretary

Committees

The Group has the following Board committees: Audit, Compensation, Enterprise Risk Management, Governance, Finance, Insurance Solutions, Strategic Capital Solutions, Learning and Information Technology Solutions and Sales, Marketing and Research. The committees act under the supervision of the Board of Directors and the Board can appoint additional committees as it sees appropriate. Each committee makes its own rules and regulations which are approved by the Board to govern and transact business.

Affiliated Companies

The Group is designed to be a one-stop source for insurance, risk control, training, financial and support services. The non-insurance entities within the Group providing these services are:

- Housing Investment Group, Inc. (HIG) – Investment holding company, 100% jointly owned by HAPI and HARRG
- Housing Insurance Services, Inc. (HIS) – Insurance agency services
- Housing Telecommunications, Inc. (HTI) – Risk management training and education programs

- Housing Alliance Group LLC (HAGL) – Engages in the business of assisting public housing authorities and their affiliates by sponsoring funding and assisting in transformation of their housing portfolio.
- Housing Authority Insurance, Inc. (HAI) – membership association and program development
- Public and Affordable Housing Research Corp. (PAHRC) – Conducts research to support the efforts of the public and affordable housing industry.

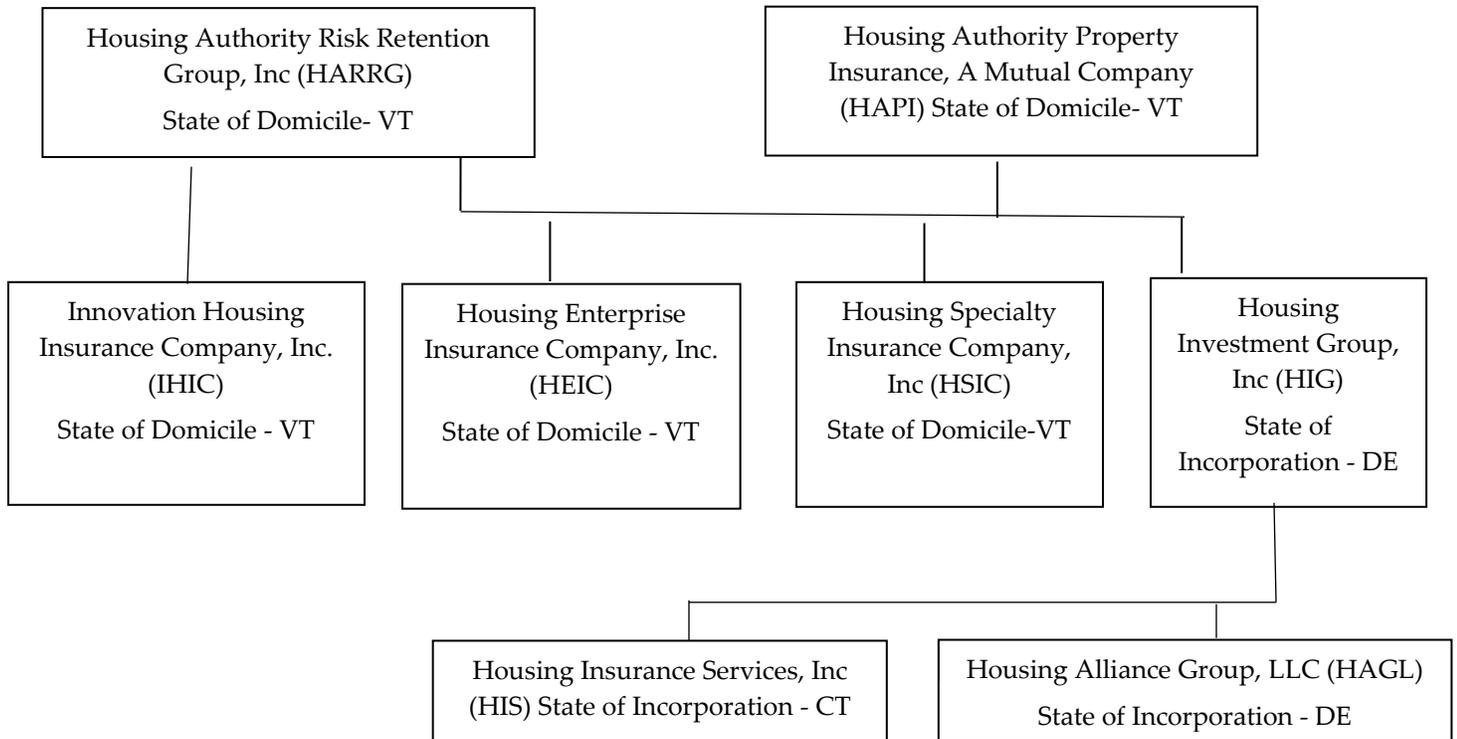
There are various intercompany agreements in place for entities within the Group. These agreements allocate shared expenses between the entities and overall facilitate the insurance services provided. The agreements for the insurance entities are summarized as follows:

- Common Paymaster – HARRG pays all payroll on behalf of the other entities within the Group and is then reimbursed for time worked on behalf of the other entities.
- Facilities Agreement – Entities within the Group will reimburse HARRG for the cost of occupying the space at the Group’s home office location in Connecticut.
- HAI Membership Agreement – The insurance entities within the Group (HARRG, HAPI, HEIC and HSIC) pay an annual membership fee to HAI.
- HIS has agency and management agreements with HARRG, HAPI, HEIC and HSIC related to soliciting and accepting applications for insurance and processing those applications as well as HAPI, HARRG, HEIC and HSIC providing personnel and facilities to carry out insurance management.

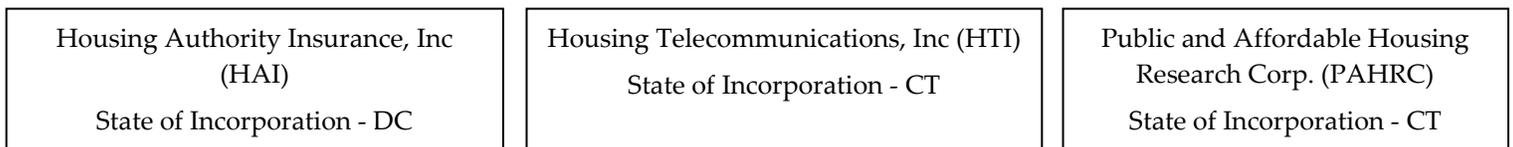
Note: there are also intercompany agreements between several of the non-insurance entities which have not been disclosed in this report.

Organizational Chart

The corporate structure as of December 31, 2018 is as follows:



Standalone Entities



TERRITORY AND PLAN OF OPERATIONS

HAPI is licensed in 49 states and provides property and boiler and machinery coverages with limits of \$500,000 per occurrence for each respectively. HEIC is licensed in 49 states and writes property and casualty coverage with limits of \$250,000 per occurrence for property and \$500,000 per occurrence for casualty. HSIC is licensed in 40 states and writes commercial property

coverage as an excess and surplus lines insurer with limits of \$250,000 per occurrence for commercial property coverage and \$750,000 per occurrence for liability coverages.

REINSURANCE

The Group maintains reinsurance with various reinsurers to limit its exposure to losses. The Group's reinsurance program consists of reinsurers with the majority being B++ rated by A.M. Best or better. Terms of the reinsurance policies are one year, generally subject to 30 days Special Termination Provisions. Management reviews, approves and executes all reinsurance contracts. A third-party consultant is utilized to monitor reinsure metrics, such as reinsurance partners and their respective credit ratings and any other changes that have occurred in the reinsurance market. HAPI has reinsurance in place with limits up to \$300 million per occurrence for property in excess of its retained limits, the \$300 million aggregate is shared with HEIC and HSIC. HAPI also has additional reinsurance coverage for retained property catastrophic event losses in excess of \$10 million shared aggregate with HEIC up to \$22 million, with reinsurance assumed from HSIC counted as part of the aggregate. HEIC reinsures casualty losses in excess of \$500,000 up to a limit of \$5 million per occurrence. HSIC cedes commercial property losses in excess of its \$250,000 retained limit to HAPI and HEIC as well as liability losses in excess of \$750,000 per occurrence for liability coverages. The Group (HARRG, HAPI, HEIC and HSIC) also has shared terrorism coverage with limits in excess of \$2 million up to an aggregate of \$60 million per occurrence.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by HAPI, HEIC and HSIC with the Vermont Department of Financial Regulation and present the financial condition of each Company for the period ending December 31, 2018.

Statement of Admitted Assets

	<u>HAPI</u>	<u>HEIC</u>	<u>HSIC</u>
Cash and invested assets:			
Debt securities, at amortized cost or fair value	\$ 118,310,415	\$ -	\$ -
Equity securities, at fair value	11,491,539	-	-
Federal Home Loan Bank of Boston stock, at cost	239,500	-	-
Investment in affiliates	29,499,796	-	-
Investments, at amortized cost or fair value	-	65,651,978	22,658,419
Cash, cash equivalents and short-term investments	4,235,603	1,212,966	538,313
Total cash and invested assets	<u>163,776,853</u>	<u>66,864,944</u>	<u>23,196,732</u>
Investment income due and accrued	725,483	454,122	131,268
Premiums receivable	15,627,990	12,634,701	350,338
Reinsurance recoverable on paid losses	9,925,253	3,539,849	77,833
Funds held by or deposited with reinsured companies	10,000	-	-
Due from affiliates	3,963	51,071	-
Deferred tax asset	-	1,198,375	-
Federal income tax receivable	-	88,744	-
Total admitted assets	<u>\$ 190,069,542</u>	<u>\$ 84,831,806</u>	<u>\$ 23,756,171</u>

Statement of Liabilities and Capital and Surplus

	<u>HAPI</u>	<u>HEIC</u>	<u>HSIC</u>
Unpaid losses and loss adjustment expenses	\$ 35,634,577	\$ 27,867,191	\$ 616,619
Reinsurance payable on paid losses	77,833	-	-
Taxes, licenses and fees	860,651	551,966	-
Unearned premiums	24,161,661	17,020,696	441,890
Accrued dividends	2,302,237	-	-
Ceded reinsurance premiums payable	118,364	900,097	98,210
Provision for reinsurance	222,000	-	-
Funds held under reinsurance treaties	197,198	79,459	-
Due to affiliates	1,157,436	401,423	64,230
Accrued expenses and other liabilities	1,130,515	477,100	70,588
Provision for unauthorized reinsurance	-	116,000	-
Total liabilities	<u>\$ 65,862,472</u>	<u>\$ 47,413,932</u>	<u>\$ 1,291,537</u>
Members' contributions	\$ 10,066,439	\$ -	\$ -
Common stock, \$10,000 stated value, 10,000 shares authorized, and 2,000 and 200 issued and outstanding, respectively	-	20,000,000	2,000,000
Contributed surplus	-	29,000,000	20,800,000
Unassigned surplus	114,140,631	(11,582,126)	(335,366)
Total capital and surplus	<u>124,207,070</u>	<u>37,417,874</u>	<u>22,464,634</u>
Total liabilities and capital and surplus	<u><u>\$ 190,069,542</u></u>	<u><u>\$ 84,831,806</u></u>	<u><u>\$ 23,756,171</u></u>

Statement of Operations

	<u>HAPI</u>	<u>HEIC</u>	<u>HSIC</u>
Premiums earned, net	\$ 51,063,816	\$ 25,821,913	\$ 1,421,091
Net losses and LAE incurred	30,811,439	16,114,317	821,981
Other underwriting expenses incurred	15,287,091	8,547,836	860,138
Total losses and expenses	<u>46,098,530</u>	<u>24,662,153</u>	<u>1,682,119</u>
Net underwriting income (loss)	4,965,286	1,159,760	(261,028)
Net investment income earned	2,995,194	1,601,987	496,293
Net realized capital losses	(46,910)	(131,545)	(85,392)
Other income	<u>86,499</u>	<u>25,140</u>	<u>-</u>
Net income before policyholder dividends and federal income taxes	8,000,069	2,655,342	149,873
Policyholder dividends	(2,300,000)	-	-
Net income	<u>\$ 5,700,069</u>	<u>\$ 2,655,342</u>	<u>\$ 149,873</u>

Statement of Changes in Capital and Surplus

	<u>HAPI</u>	<u>HEIC</u>	<u>HSIC</u>
Capital and surplus at December 31, 2017	\$ 118,501,871	\$ 33,638,715	\$ 16,319,493
Net income	5,700,069	2,655,342	149,873
Net unrealized capital gains	901,429	-	-
Equity dividends	(188,142)	-	-
Members' (distributions) contributions, net	(40,076)	-	-
Change in non-admitted assets	(826,081)	(68,541)	394
Change in provision for reinsurance	158,000	(28,000)	-
Change in net unrealized capital losses	-	22,878	(5,126)
Change in net deferred income taxes	-	1,197,480	-
Additional paid in capital	-	-	6,000,000
Capital and surplus at December 31, 2018	<u>\$ 124,207,070</u>	<u>\$ 37,417,874</u>	<u>\$ 22,464,634</u>

SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared a worldwide pandemic due to a novel coronavirus outbreak, known as COVID 19. The direct and indirect effects of the pandemic on the financial health and operations of the Company may be material, however, the ultimate impact is not determinable at this time.

COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel during the examination.

CONCLUSION

In addition to the undersigned, John Humphries, ASA, MAAA, CFE, CISA, AES, MCM, Supervising Examiner; Eric Free, CFE, ALMI, Examiner in Charge; Mark Griggs, CPA, CFE, Examiner; Christine Browning, AFE, Examiner; from Risk and Regulatory Consulting, Miranda Cloutier, AFE, Examiner, KC Ng, ACAS, Examiner; from the Department and Jenny Jeffers, AES, CISA, IT Specialist; from Jennan Enterprises, participated in the examination. We wish to express our appreciation to the Officers and Directors for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Karen Ducharme, CPA, CFE
Director of Company Licensing and Examinations
Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Ducharme, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 27th day of May, 2020

Elizabeth R. Sides
Notary Public

ELIZABETH R. SIDES
Notary Public - State of Vermont
Commission Number: 0003695
Commission Expires: 1/31/2021