

Examination Warrant Number 22-00000-28550-R1

Report of Examination of
Housing and Redevelopment Insurance Exchange
Scranton, Pennsylvania
As of December 31, 2022

For Informational Purposes Only

Housing and Redevelopment Insurance Exchange

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Harrisburg, Pennsylvania
May 23, 2024

Honorable Diana L. Sherman CPA, CFE (Fraud), CISA, CITP
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Ms. Sherman:

In accordance with instructions contained in Examination Warrant Number 22-00000-28550-R1, dated August 24, 2022, an examination was made of

Housing and Redevelopment Insurance Exchange, NAIC Code: 28550

a Pennsylvania domiciled, single-state, reciprocal insurance exchange hereinafter referred to as the "Company." The examination was conducted both remotely and at the Company's home office, located at 424 Jefferson Avenue, Scranton, Pennsylvania 18510.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2017. This examination covered the five-year period from January 1, 2018 through December 31, 2022.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("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 Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. 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, in accordance with

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40 P.S. § 323.5(a), and general information about the Company 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 Company.

For each year of the examination period, the certified public accounting firm of Brown, Schultz, Sheridan & Fritz (“CPA”) provided an unmodified audit opinion on the Company’s year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company is an unincorporated association organized on or about May 5, 1986 and licensed by the Department on July 11, 1986.

The Company is licensed as a reciprocal and inter-insurance exchange as set forth under 40 P.S. § 961. The Company is authorized to transact those classes of insurance described in 40 P.S. § 382(b)(1) Property and Allied Lines, (b)(2) Inland Marine and Physical Damage, (c)(1) Fidelity and Surety, (c)(4) Other Liability, (c)(6) Burglary and Theft, (c)(11) Auto Liability, and (c)(14) Workers’ Compensation.

MANAGEMENT AND CONTROL

SURPLUS REQUIREMENTS

The Company does not have stock but is capitalized by surplus contributions from its subscribers, its ultimate controlling persons and retained earnings of the Company. As of December 31, 2022, the Company’s total surplus as regards policyholders is \$14,913,812, which consists of \$2,831,478 in gross paid in and contributed surplus; and \$12,082,334 in unassigned funds (surplus).

Pursuant to 40 P.S. § 964(d), the minimum surplus requirement for a reciprocal and inter-insurance exchange is an amount equal to the capital and surplus required of a stock insurance company transacting the same kind or kinds of business, which is set forth under 40 P.S. § 386.

The Company’s minimum surplus requirement for the types of business for which it is licensed is \$2,625,000. The Company has met all governing surplus requirements throughout the examination period.

ATTORNEY-IN-FACT

Pursuant to 40 P.S. § 963, the Company has designated an attorney-in-fact (“AIF”) pursuant to an agreement with Excalibur Insurance Management Services, LLC (“Excalibur”) of Scranton, Pennsylvania.

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Effective June 16, 2020, Excalibur amended their operating agreement which included changes in the ownership of Excalibur. A description of managing members of Excalibur pursuant to the 2020 Amended Operating Agreement is as follows:

Member	Interest in Units	Percent Voting Share
Charles J. Volpe, Jr., Esquire	60	60%
Ellen M. Volpe	10	10%
Jennifer A. Volpe	10	10%
Charles J. Volpe, III	10	10%
John C. Volpe	10	10%
Total	100	100%

Based on the 2020 changes in unit distributions of Excalibur, there are several individuals that acquired 10% voting control of Excalibur, which in turn appears to provide the presumption of control of the Company. It was also noted the 2020 Amended Operating Agreement's Power and Authority of the Members Section 15(c) was changed to stipulate that management of the business and affairs of Excalibur was vested in the members. Based on the exam team's review, the individuals that acquired control did not make a filing with the Department in compliance with 40 P.S. § 991.1402.

In addition, as of December 31, 2022, the Company reports Charles J. Volpe Jr. as 100% owner of Excalibur within Schedule Y - Part 1A and on the 2022 insurance holding company system annual registration statement ("Annual Registration Statement") which does not reconcile to Excalibur's 2020 Amended Operating Agreement.

It is recommended that the Company ensure that all individuals that acquired a 10% or greater share of voting control of Excalibur make a filing pursuant to 40 P.S. § 991.1402 immediately with the Department's Company Licensing Division. In addition, the Company should properly report ownership interest of Excalibur within the financial statements and the Annual Registration Statement (Form B).

INSURANCE HOLDING COMPANY SYSTEM

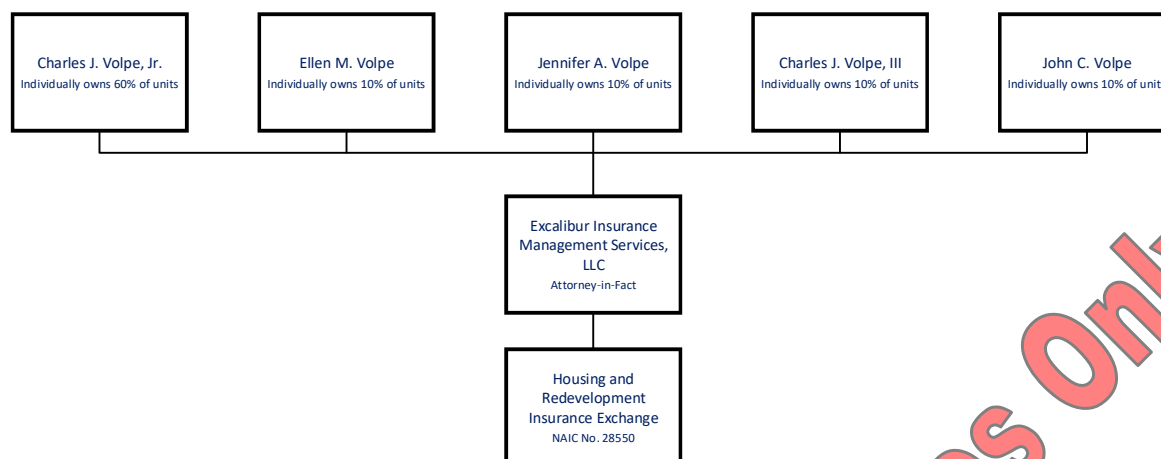
The Company meets the requirements for filing an Annual Registration Statement, in accordance with 40 P.S. § 991.1404. For years 2018 through 2022, the Company filed the Annual Registration Statement on or around March 31st.

Control of the Company is not derived through direct ownership of the Company, but through the power to direct or cause the direction of the management and policies of the Company. The Company is directly controlled by the AIF, who in turn is directly owned by Excalibur's managing members.

Ownership of Excalibur is described in the "Attorney-in-Fact" section above. The managing members of Excalibur are considered the ultimate controlling persons of the Company's holding company system as depicted below:

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BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors (“Board”), which was comprised of the following members as of December 31, 2022:

Name and Address

Edward P. Christiano
Coal Township, Pennsylvania

John J. Jennings
Fleetville, Pennsylvania

Cheryl A. Johns
Huntingdon, Pennsylvania

Daniel J. Kanuch
Johnstown, Pennsylvania

Christopher H. Kerr
Ligonier, Pennsylvania

Joseph T. Kohut
Carbondale, Pennsylvania

William J. Lisak
Scranton, Pennsylvania

Principal Occupation

Executive Director
Housing Authority of Northumberland County

Executive Director
Wyoming County Housing Authority

Executive Director
Altoona Housing Authority

Executive Director
Johnstown Housing Authority

Utility Management
RDM

Executive Director
Wayne County Housing Authority

Executive Director
Housing Authority City of Pittston

The Board is comprised of members who are elected at each annual meeting of the members, and the persons elected shall serve a term of five years or until their successor is duly elected and qualified.

COMMITTEES

As of December 31, 2022, the following committees were appointed by the Board and serving in accordance with the Company’s by-laws:

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Audit Committee

John J. Jennings (Chair)
Cheryl A. Johns
Christopher H. Kerr

Finance Committee

Edward P. Christiano (Chair)
Cheryl A. Johns
William J. Lisak

Nominating Committee

Cheryl A. Johns (Chair)
John J. Jennings
Christopher H. Kerr

Pursuant to the Company's by-laws and the Company's Audit Committee Charter, the Audit Committee shall meet membership requirements and perform the duties required by 40 P.S. § 991.1405(c)(4).

During the examination, it was determined that the Audit Committee was not operating in compliance with the Company's Audit Committee Charter, as the committee did not hold meetings as required by the Audit Committee Charter for some years of the examination period.

It is recommended the Audit Committee meet three times per year, in compliance with the provisions of the Company's Audit Committee Charter.

Pursuant to the Company's by-laws and the Company's Nominating Committee Charter, the Nominating Committee shall meet membership requirements and perform the duties required by 40 P.S. § 991.1405(c)(4.1).

During the examination, it was determined that the Nominating Committee was not operating in compliance with its Nominating Committee Charter, as the committee did not maintain meeting minutes. The examination team was unable to validate that the committee held meetings as required by its charter and performed the duties required by 40 P.S. § 991.1405(c)(4.1).

It is recommended that the Board appoint and record its appointment of the Nominating Committee members, annually. The Board shall ensure the committee's membership meets the duty requirements of 40 P.S. § 991.1405(c)(4.1).

OFFICERS

As of December 31, 2022, the following officers were appointed and serving in accordance with the Company's by-laws:

Name

Edward P. Christiano
Daniel J. Kanuch
William J. Lisak
Joseph T. Kohut

Title

President
Treasurer
Secretary
Vice President

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company were held in compliance with its by-laws.
- Directors are elected at the annual meetings of the members of the Company in compliance with the by-laws.
- Quorums were present at all directors' meetings.
- All directors attend Board meetings regularly.

ARTICLES OF AGREEMENT

There were no changes to the Company's articles of agreement during the examination period.

BY-LAWS

Effective January 1, 2020, the Company amended its by-laws to update the required qualifications for individuals to become a director.

The Company did not file the change to its by-laws with the Department as required by the Department's Financial Filing Requirements.

It is recommended that the Company file changes to its by-laws immediately with the Department in compliance with the Department's Financial Filing Requirements.

SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, which includes related-party agreements and third-party agreements. The following significant agreements were in place during the examination period:

Related Party Agreements

Attorney-in-Fact Agreement

Effective December 17, 2019, the Company entered into an Addendum to the June 2015 Amended AIF Agreement with Excalibur. The addendum delineated the management duties of Excalibur, as well as those duties which are not included in Excalibur's management duties. In addition, the addendum delineated the compensation relating to the management duties. Excalibur shall conduct the day-to-day administrative and management duties of the Company, except for those duties excluded by the agreement. Excalibur is to be paid a percentage of not more than 33 1/3% of the workers' compensation insurance premiums with broker's commissions being paid by Excalibur. For all other insurance premiums, Excalibur shall be paid

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a percentage of not less than 20% nor more than 25% exclusive of any commissions that will be paid by the Company.

The Company did not obtain the Department's prior approval for the amended AIF agreement.

It is recommended the Company file for the Department's no objection to this transaction (amendment to AIF Agreement) that was subject to prior notice in compliance with 40 P.S. § 991.1405(a)(2) and 31 Pa. Code § 25.21.

Reinsurance Consulting Contract

Effective June 1, 2013, the Company entered into an amended Reinsurance Consulting Contract with Excalibur. Pursuant to the contract, Excalibur shall represent the Company in all reinsurance matters. Excalibur's fee for services, pursuant to the contract is 6.0% of ceded premium.

The Company did not obtain the Department's prior approval for the amended Reinsurance Consulting Contract.

It is recommended the Company file for the Department's no objection to this transaction (amendment to Reinsurance Consulting Contract) that was subject to prior notice in compliance with 40 P.S. § 991.1405(a)(2) and 31 Pa. Code § 25.21.

During the examination, the Company was unable to provide appropriate documentation that the agreement is considered to be fair and reasonable in compliance with *Statement of Statutory Accounting Principles* ("SSAP") No. 25.

It is recommended that the Company provide to the Department its support that clearly demonstrates how the terms of the Reinsurance Consulting Agreement between the Company and Excalibur are fair and reasonable and how fees for services complies with SSAP No. 25, Paragraph 20. If appropriate support is not provided, it is recommended that the Company terminate the contract.

Independent Contractor/Reimbursement Agreements

Several Independent Contractor/Reimbursement Agreements are in place between the Company, Excalibur, and the independent contractors listed below. Each independent contractor listed below has their own agreement that includes the Company and Excalibur as parties to the agreement with effective dates as follows:

Independent Contractor/Title	Effective Date
Doug Walsh, Workers' Compensation Auditor	September 1, 2022
Steve Chekan, Information Technology Specialist	September 1, 2022
Richard DeBlasio, Legal Services	September 1, 2022
Mary Christa LaBelle, Case Manager	September 1, 2022
Michele Giorgio, Case Manager	September 1, 2022
John Brose, Case Manager	September 1, 2022
Kathleen Simrell, Administrative Assistant	September 1, 2022

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All agreements are collectively referred to as “Employee Agreements.” Pursuant to the terms of the Employee Agreements, the individual provides services as described within the agreement, Excalibur compensates the individual for the services provided, and the Company reimburses Excalibur for cost of services provided to the Company by the individual in accordance with amount agreed upon in their contract .

Cost Sharing Reimbursement Agreement

Effective December 17, 2019, the Company entered into a Cost Sharing/Reimbursement Agreement with Excalibur. Per the agreement, the Company will reimburse Excalibur in full or in part as specified within the agreement for marketing events and work sessions.

The Company did not obtain the Department’s prior approval for the amended Cost Sharing/Reimbursement Agreement with Excalibur.

It is recommended the Company file for the Department's no objection to this transaction (Cost Sharing/Reimbursement Agreement) that was subject to prior notice in compliance with 40 P.S. § 991.1405(a)(2) and 31 Pa. Code § 25.21.

In addition, the Company did not properly disclose the Cost Sharing/Reimbursement Agreement in its Annual Registration Statement in compliance with 40 P. S. § 991.1404(b)(3).

It is recommended the Company disclose all affiliated transactions in compliance with 40 P. S. § 991.1404(b)(3).

Third-Party Agreements

Custodial Agreement

Effective August 1, 2013, the Company entered into an amended Custodial Agreement with Community Bank National Association d/b/a First Liberty Bank and Trust. The custodian provides custody services to the Company for assets held by the custodian and provides other custody services in accordance with the terms of the agreement. The agreement is in compliance with 31 Pa. Code § 148a.3.

Trust Agreement

Effective June 1, 2012, the Company entered into an amended Trust Agreement with Community Bank National Association d.b.a. First Liberty Bank and Trust. The trustee shall hold, manage, invest, and reinvest assets received from the Company in accordance with the terms of the agreement.

Investment Manager Agreement

Effective May 25, 2012, the Company entered into an Investment Manager Agreement with Nottingham Advisors, Inc. The investment manager shall act as investment manager for the Company’s cash, securities, and other investments pursuant to the terms of the agreement.

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REINSURANCE

CEDED

The Company's ceded premium for 2022 was \$5,345,988 which is approximately 36% of its surplus. The Company's net amount recoverable for 2022 was approximately \$10,205,000. As of December 31, 2022, the Company had \$491,552 outstanding due recoverables from its reinsurers.

Multiple Line Excess of Loss Reinsurance Contract

Effective January 1, 2022, the Company entered into a Multiple Line Excess of Loss Reinsurance Contract with the following subscribing reinsurers and (reinsurer's share): Mutual Reinsurance Bureau (15.0% all layers), Hannover Rück Se (50.0% all layers), Arch Reinsurance Company (15.0% all layers) and Scor Reinsurance Company (20.0% all layers). The term of the contract is for one year.

The Company's net loss retention and the reinsurance limits are as follows:

Layer	Company's Retention	Reinsurance Limits	Types of Business
1 st Excess	\$350,000 each property loss occurrence \$350,000 each casualty loss occurrence	\$1,650,000 each property loss occurrence \$1,650,000 each casualty loss occurrence \$1,650,000 combined aggregate for foreign acts of terrorism unlimited for all loss occurrences	Casualty - fire; allied & inland marine (all layers, except 3 rd Excess) Property – general liability; directors and officer's liability; commercial auto liability; and workers' compensation (all layers)
2 nd Excess	\$2,000,000 each property loss occurrence \$2,000,000 each casualty loss occurrence	\$3,000,000 each property loss occurrence \$3,000,000 each casualty loss occurrence \$3,000,000 combined aggregate for foreign acts of terrorism \$12,000,000 combined aggregate for all loss occurrences	
3 rd Excess	\$5,000,000 each property loss occurrence	\$5,000,000 each property loss occurrence \$5,000,000 aggregate for foreign acts of terrorism \$10,000,000 aggregate for all loss occurrences	

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Property Agreement of Reinsurance

Effective January 1, 2022, the Company entered into a Property Agreement of Reinsurance with Arch Reinsurance Company. The term of the agreement is one year.

The Company's net loss retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Types of Business
\$10,000,000 each loss occurrence	\$50,000,000 each loss occurrence	Property

Workers' Compensation Excess of Loss Reinsurance Contract

Effective January 1, 2022, the Company entered into a Workers' Compensation Excess of Loss Reinsurance Contract with the following subscribing reinsurers and (reinsurer's share): PartnerRe America Insurance Company (15.0%); Mutual Reinsurance Bureau (13.5%); Safety National Casualty Corporation (15.0%); Transatlantic Reinsurance Company (12.5%); Markel Bermuda Limited (24.0%); Hannover Rück Se (10.0%); and Lloyd's Underwriter Syndicate No. 2987 BRT (10.0%). The term of the agreement is one year.

The Company's net loss retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Types of Business
\$500,000 each loss occurrence	\$9,500,000 each loss occurrence \$19,000,000 aggregate for term of contract \$5,000,000 each loss occurrence and aggregate per policy as respects employer's liability	Workers' compensation and employer's liability

\$10,000,000 Excess \$10,000,000 Workers' Compensation Catastrophe Excess of Loss Reinsurance Contract

Effective January 1, 2022, the Company entered into a \$10,000,000 Excess \$10,000,000 Workers' Compensation Excess of Loss Contract with the following subscribing reinsurers and (reinsurer's share): Arch Reinsurance Company (20.0%); Lloyd's Underwriter Syndicate No. 2987 BRT (15.0%); Markel Bermuda Limited (20.0%); Lloyds Underwriter Syndicate No. 3000 (20.0%); and Houston Casualty Company (25.0%). The term of the agreement is one year.

The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Types of Business
\$10,000,000 each loss occurrence	\$10,000,000 each loss occurrence	Workers' compensation

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\$5,000,000 each loss occurrence	\$5,000,000 each loss occurrence and aggregate per policy	Employer's liability
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Equipment Breakdown Reinsurance Agreement

Effective January 1, 2016, the Company entered into an Equipment Breakdown Reinsurance Agreement with The Hartford Steam Boiler Inspection and Insurance Company ("HSB"), whereby HSB assumes 100.0% of the equipment breakdown liability. The agreement was amended effective January 1, 2021 to increase the reinsurance limit under the contract. The term of the agreement is of unlimited duration unless terminated.

Company's Retention	Reinsurance Limits	Types of Business
None	\$50,000,000 any one accident, any one policy	Equipment breakdown liability

The Company's reinsurance intermediary, Guy Carpenter & Company, LLC ("Guy Carpenter"), is licensed by the Department as required by 40 P.S. § 321.2(a). The Company has a properly executed written agreement with Guy Carpenter in accordance with 40 P.S. § 321.3.

Effective November 30, 2022, the Company appointed McGill Global Risk Solutions, LLC as its reinsurance broker beginning with reinsurance placed in 2023.

All reinsurance contracts contain the proper insolvency and arbitration clauses. Additionally, all contracts transfer risk as outlined in SSAP No. 62R.

ASSUMED

The Company did not assume any business during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed solely in Pennsylvania. The Company's marketing strategy has not changed since the prior examination and is limited to its membership that encompasses primarily housing authorities, redevelopment authorities, and governmental entities such as townships, municipalities, and other municipal authorities operating in Pennsylvania. The Company, through its AIF, writes and binds all business on a direct basis while utilizing independent agents to solicit other governmental entity business.

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Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2022				
Fire	\$ 8,052,951	\$ 1,949,430	\$ 6,103,521	25.5%
Allied lines	2,366,683	712,063	1,654,620	6.9%
Inland marine	140,995	27,009	113,986	0.5%
Workers' compensation	13,984,628	1,996,039	11,988,589	49.8%
Other liability - occurrence	2,939,060	502,680	2,436,380	10.2%
Other liability - claims-made	112,904	18,546	94,358	0.4%
Commercial auto liability	833,331	140,221	693,110	2.9%
Auto physical damage	833,332	0	833,332	3.5%
Fidelity	42,328	0	42,328	0.2%
Burglary and theft	18,919	0	18,919	0.1%
Totals	<u>\$ 29,325,131</u>	<u>\$ 5,345,988</u>	<u>\$ 23,979,143</u>	<u>100.0%</u>

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	<u>\$ 119,340,231</u>	<u>100.0 %</u>
Losses incurred	62,045,490	52.0 %
Loss expenses incurred	22,336,897	18.7 %
Other underwriting expenses incurred	40,003,744	33.5 %
Aggregate write-ins for underwriting deductions	254,655	0.2 %
Net underwriting gain or (loss)	<u>(5,300,555)</u>	<u>(4.4)%</u>
Totals	<u>\$ 119,340,231</u>	<u>100.0 %</u>

The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2022	2021	2020	2019	2018
Admitted assets	\$ 47,068,150	\$ 47,141,491	\$ 46,394,717	\$ 44,607,166	\$ 43,205,104
Liabilities	\$ 32,154,338	\$ 31,470,672	\$ 30,673,642	\$ 30,592,647	\$ 27,797,157
Surplus as regards policyholders	\$ 14,913,812	\$ 15,670,819	\$ 15,721,075	\$ 14,014,519	\$ 15,407,947
Gross premium written	\$ 29,325,131	\$ 28,441,169	\$ 29,517,073	\$ 28,457,546	\$ 28,408,461
Net premium written	\$ 23,979,143	\$ 23,366,063	\$ 24,683,325	\$ 23,871,297	\$ 23,884,442
Underwriting gain/(loss)	\$ (694,617)	\$ (982,279)	\$ 1,039,176	\$ (2,833,902)	\$ (1,828,933)
Investment gain/(loss)	\$ 1,074,895	\$ 1,185,214	\$ 607,669	\$ 910,356	\$ 913,608
Other gain/(loss)	\$ 3	\$ 4,612	\$ 1,406	\$ 0	\$ (9,659)
Net income	\$ 380,281	\$ 207,546	\$ 1,648,252	\$ (1,923,546)	\$ (924,984)

PENDING LITIGATION

As of the date of this examination report, Company management attested that the Company was not involved in any litigation and was not aware of any threatened litigation that could have a material adverse effect on its financial condition.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2022, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;

Comparative Statement of Income;

Comparative Statement of Capital and Surplus; and

Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding differences.

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2022	2021	2020	2019	2018
Bonds	\$ 32,110,040	\$ 27,332,209	\$ 20,297,202	\$ 32,940,099	\$ 33,101,130
Common stocks	3,980,181	4,094,826	3,513,527	3,406,561	2,880,592
Real estate	0	79	1,937	4,890	9,158
Cash, cash equivalents, and short term investments	6,224,050	11,702,436	18,107,615	3,852,028	3,260,183
Subtotals, cash and invested assets	42,314,271	43,129,550	41,920,281	40,203,578	39,251,063
Investment income due and accrued	290,632	173,329	140,148	211,481	159,739
Premiums and agents' balances due	3,487,423	3,315,419	3,903,647	3,262,474	3,281,840
Amounts recoverable from reinsurers	491,552	250,267	172,074	678,575	301,647
Aggregate write-ins for other than invested assets	484,272	272,926	258,567	251,058	210,815
Total	\$ 47,068,150	\$ 47,141,491	\$ 46,394,717	\$ 44,607,166	\$ 43,205,104
Losses	\$ 19,368,342	\$ 19,154,714	\$ 18,105,784	\$ 17,728,864	\$ 15,748,197
Loss adjustment expenses	4,348,173	4,414,139	4,368,608	5,066,979	3,983,348
Commissions payable, contingent commissions and other similar charges	24,104	27,736	46,891	103,699	106,013
Other expenses	170,695	155,670	122,990	161,120	128,645
Taxes, licenses and fees	298,276	193,882	142,794	59,496	180,092
Unearned premiums	7,160,240	6,876,533	7,228,245	6,841,915	6,933,765
Advance premium	0	291	0	0	396
Amounts withheld or retained by company for account of others	784,508	647,707	658,330	630,574	716,701
Total liabilities	32,154,338	31,470,672	30,673,642	30,592,647	27,797,157
Gross paid in and contributed surplus	2,831,478	2,831,478	2,831,478	2,831,478	2,831,478
Unassigned funds (surplus)	12,082,334	12,839,341	12,889,597	11,183,041	12,576,469
Surplus as regards policy holders	14,913,812	15,670,819	15,721,075	14,014,519	15,407,947
Totals	\$ 47,068,150	\$ 47,141,491	\$ 46,394,717	\$ 44,607,166	\$ 43,205,104

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Comparative Statement of Income For the Year Ended December 31,

	2022	2021	2020	2019	2018
Underwriting Income					
Premiums earned	\$ 23,695,436	\$ 23,717,775	\$ 24,296,995	\$ 23,963,145	\$ 23,666,880
Deductions:					
Losses incurred	11,551,094	12,660,332	12,135,260	13,086,665	12,612,139
Loss expenses incurred	3,621,827	3,717,794	2,622,067	6,760,729	5,614,480
Other underwriting expenses incurred	9,021,342	8,265,298	8,383,117	7,064,793	7,269,194
Aggregate write-ins for underwriting deductions	195,790	56,630	117,375	(115,140)	0
Total underwriting deductions	24,390,053	24,700,054	23,257,819	26,797,047	25,495,813
Net underwriting gain or (loss)	(694,617)	(982,279)	1,039,176	(2,833,902)	(1,828,933)
Investment Income					
Net investment income earned	884,989	523,086	600,863	906,353	899,118
Net realized capital gains or (losses)	189,906	662,128	6,806	4,603	14,490
Net investment gain or (loss)	1,074,895	1,185,214	607,669	910,956	913,608
Other Income					
Aggregate write-ins for miscellaneous income	3	4,612	1,406	0	(9,659)
Total other income	3	4,612	1,406	0	(9,659)
Net income before dividends to policyholders and before federal and foreign income taxes	380,281	207,546	1,648,252	(1,923,546)	(924,984)
Net income	\$ 380,281	\$ 207,546	\$ 1,648,252	\$ (1,923,546)	\$ (924,984)

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Comparative Statement of Capital and Surplus For the Year Ended December 31,

	2022	2021	2020	2019	2018
Surplus as regards policyholders,					
December 31, previous year	\$ 15,670,819	\$ 15,721,075	\$ 14,015,517	\$ 15,407,947	\$ 16,468,873
Net income	380,281	207,546	1,648,252	(1,923,546)	(924,984)
Net unrealized capital gains or (losses)	(1,104,688)	(265,249)	110,646	511,437	(245,268)
Change in nonadmitted assets	(32,600)	7,447	(53,340)	19,679	109,326
Change in surplus as regards policyholder for the year	(757,007)	(50,256)	1,705,558	(1,392,430)	(1,980,926)
Surplus as regards policyholders,					
December 31, current year	\$ 14,913,812	\$ 15,670,819	\$ 15,721,075	\$ 14,015,517	\$ 15,407,947

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Comparative Statement of Cash Flow For the Year Ended December 31,

	2022	2021	2020	2019	2018
Cash from Operations					
Premiums collected net of reinsurance	\$ 23,752,927	\$ 23,981,865	\$ 24,005,446	\$ 23,945,159	\$ 24,490,369
Net investment income	769,959	496,712	679,245	857,695	907,720
Miscellaneous income	3	4,612	1,406	(1,024)	(9,659)
Total income	24,522,889	24,483,189	24,686,097	24,801,830	25,388,430
Benefit and loss related payments	11,578,751	11,689,596	11,251,838	11,563,286	12,380,122
Commissions, expenses paid and aggregate write-ins for deductions	12,759,619	11,967,582	11,825,838	12,717,196	13,412,028
Total deductions	24,338,370	23,657,178	23,077,676	24,280,482	25,772,150
Net cash from operations	184,519	826,011	1,608,421	521,348	(383,720)
Cash from Investments					
Proceeds from investments sold, matured or repaid					
Bonds	6,492,585	5,056,994	15,000,846	13,143,142	2,023,380
Stocks	625,897	2,288,919	0	0	0
Net gain or (loss) on cash and short-term investments	0	0	0	0	1,483
Miscellaneous proceeds	0	0	0	4,231	0
Total investment proceeds	7,118,482	7,345,913	15,000,846	13,147,373	2,024,863
Cost of investments acquired (long-term only):					
Bonds	11,380,876	12,054,806	2,347,423	12,991,420	984,630
Stocks	1,317,768	2,496,836	0	0	0
Real estate	0	0	0	4,267	1,040
Miscellaneous applications	0	0	4,136	(35)	0
Total investments acquired	12,698,644	14,551,642	2,351,559	12,995,652	985,670
Net cash from investments	(5,580,162)	(7,205,729)	12,049,287	151,721	1,039,193
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	(82,743)	(25,461)	(2,121)	(81,224)	199,830
Net cash from financing and miscellaneous sources	(82,743)	(25,461)	(2,121)	(81,224)	199,830
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(5,478,386)	(6,405,179)	14,255,587	591,845	855,303
Cash and short-term investments:					
Beginning of the year	11,702,436	18,107,615	3,852,028	3,260,183	2,404,880
End of the year	\$ 6,224,050	\$ 11,702,436	\$ 18,107,615	\$ 3,852,028	\$ 3,260,183

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SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2022, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 32,110,040	75.9 %
Common stocks	3,980,181	9.4 %
Cash	502,940	1.2 %
Cash equivalents	1,814,039	4.3 %
Short-term investments	3,907,071	9.2 %
Totals	<u>\$ 42,314,271</u>	<u>100.0 %</u>

The Company's bond, cash equivalents, and short-term investments portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 34,178,634	90.3 %
2 - high quality	2,448,691	6.5 %
3 - medium quality	937,975	2.5 %
4 - low quality	265,850	0.7 %
Totals	<u>\$ 37,831,150</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 13,668,578	36.1 %
2 to 5 years	8,972,301	23.7 %
6 to 10 years	6,525,189	17.2 %
11 to 20 years	7,984,710	21.2 %
no maturity	680,373	1.8 %
Totals	<u>\$ 37,831,150</u>	<u>100.0 %</u>

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board. The Company was following its investment policy as of December 31, 2022.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$19,368,342 for losses and \$4,348,173 for loss adjustment expenses (“LAE”) on the December 31, 2022 Annual Statement.

J. Edward Costner, ACAS, MAAA of Casualty Actuarial Consultants, Inc. (“CAC”) was the appointed actuary (“AA”) for year-end 2022. For years-end 2018 through 2021, Cecilia M. LePere, ACAS, MAAA, also of CAC, was the Company’s AA.

For each year in the examination period, the AA provided a Statement of Actuarial Opinion (“Opinion”) stating that the Company’s loss and LAE reserve amounts made a reasonable provision for all unpaid loss and LAE obligations of the Company under the terms of its policies and agreements.

In order for the examination team to gain adequate comfort level with the Company’s loss and LAE reserve estimates, the Department engaged the actuarial services of Madison Consulting Group, Inc. (“Madison”) as well as the assistance of the Department’s internal property and casualty actuary to perform a risk-focused review of the Company’s reserving and pricing processes.

Madison assisted the Department with Phase 5 testing procedures that included an independent actuarial analysis of reserves on both net of reinsurance and gross of reinsurance bases. Madison developed an actuarial central estimate as well as a range of reasonable low and high reserve estimates as of December 31, 2022.

Based upon the examination procedures, the examination team determined the Company’s carried reserves as of December 31, 2022, were reasonable as the Company’s carried reserves fell within the range of reasonable estimates established by both the Company’s AA and the Department’s actuarial specialist. However, the Company’s carried unpaid loss and LAE reserves are based on Company management’s best estimate, and the Company could not provide to the examination team evidence to support how management determined its best estimate in accordance with SSAP No. 55. As such, the examination team was unable to assess whether Company management’s best estimate represents a more accurate reflection of unpaid loss and LAE liabilities than any other point in the Company’s AA’s range of reasonable estimates, including the point estimate, as of December 31, 2022.

It is recommended that the Company record its AA’s point estimate for unpaid loss and LAE reserves in future financial statements to comply with the requirements and guidance set forth in SSAP No. 55, Paragraphs 11 – 15. This includes following the concept of conservatism when developing estimates for statutory reporting.

Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company’s carried loss and LAE reserve amounts are reasonably stated as of December 31, 2022.

SUBSEQUENT EVENTS

The following significant events transpired since December 31, 2022, through the date of the examination report:

The Company amended its 2023 Annual Statement to correct errors in estimates on the Accrued Interest reported. The error over-inflated the interest due and accrued on the assets page by \$480,605. Surplus reported as of December 31, 2023, was reduced by the same amount.

Effective January 1, 2023, the Board added a non-voting auxiliary board as a training platform for potential incoming board members.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It was recommended that the Company operate in accordance with its by-laws, which require seven Board Members.

The Company complied with this recommendation.

2. It was recommended that the Board appoint and record its appointment of the Audit Committee members, annually. The Board shall ensure the committee's membership meets the requirements of 40 P.S. § 991.1405(c)(4). In addition, it is recommended that the Audit Committee operate in accordance with the Company's by-laws and Audit Committee Charter, including preparing minutes and submitting minutes to the Board for approval, and performing the functions required pursuant to 40 P.S. § 991.1405(c)(4).

The Company only partially complied with this recommendation. The portion of noncompliance is repeated below (see "Current Examination," page 22, Item 2).

3. It was recommended that the Board appoint and record its appointment of the Nominating Committee members, annually. The Board shall ensure the committee's membership meets the requirements of 40 P.S. § 991.1405(c)(4.1). In addition, it is recommended that the Nominating Committee operate in accordance with the Company's by-laws and Nominating Committee Charter, including preparing minutes and submitting minutes to the Board for approval, and performing the functions required pursuant to 40 P.S. § 991.1405(c)(4.1).

The Company did not comply with this recommendation. This recommendation is repeated below (see "Current Examination," page 22, Item 3).

4. It was recommended that the Company file future changes to its articles of agreement with the Department in compliance with the Department's Financial Filing Requirements.

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There were no changes to the articles of agreement during the examination period. As such, the examination team was unable to verify compliance with this recommendation.

5. It was recommended that the Company file changes to its by-laws with the Department in compliance with the Department's Financial Filing Requirements.

The Company did not comply with this recommendation. This recommendation is repeated below (see "Current Examination," page 22, Item 4).

6. It was recommended that the Company execute amendments to agreements when the terms of the written agreements change.

The Company did not comply with this recommendation. This recommendation is repeated below (see "Current Examination," page 22, Item 5).

7. It was recommended that the Company provide the Department with support explaining how the Reinsurance Consulting Contract is fair and reasonable to the Company and its subscribers as required by 40 P.S. § 991.1405(a) and SSAP No. 25.

The Company did not comply with this recommendation. This recommendation is repeated below (see "Current Examination," page 22, Item 7).

8. It was recommended that the Company reimburse Excalibur only for amounts pursuant to the terms of its written agreements. In addition, it is recommended that the Company review each Employee Agreement in force and amend the agreements immediately to bring the agreements into compliance with SSAP No. 2, Paragraph 7 and 31 Pa. Code § 25.21(d)(2).

The Company complied with this recommendation.

9. It was recommended that in the future, the Company file for the Department's prior approval of transactions subject to prior notice pursuant to 40 P.S. § 991.1405(a)(2) and 31 Pa. Code § 25.21.

The Company did not comply with this recommendation. This recommendation is repeated below (see "Current Examination," pages 21 - 22, Items 5, 6 and 8).

10. It was recommended that the Company execute a written agreement that complies with the requirements of SSAP No. 25 and 31 Pa. Code § 25.21 for cost and expense sharing arrangements between the Company and Excalibur.

The Company complied with this recommendation.

11. It was recommended that the Company's investment policy be updated annually and authorized by the Board. In addition, it is recommended that the Board or a committee thereof approve investment transactions at least quarterly, in compliance with 40 P.S. § 653b(a)-(b).

The Company complied with this recommendation.

12. It was recommended that in the future the Company record its best estimate of loss and LAE reserves and maintain documentation to support how management determined the estimate to be its best estimate as set forth in SSAP No. 55, Paragraphs 10-15. This documentation should be maintained by the Company and made available to the Department upon request.

The Company did not comply with this recommendation. This recommendation is repeated below (see "Current Examination," page 23, Item 8).

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. *It is recommended that the Company ensure that all individuals that acquired a 10% or greater share of voting control of Excalibur make a filing pursuant to 40 P.S. § 991.1402 immediately with the Department's Company Licensing Division. In addition, the Company should properly report ownership interest of Excalibur within the financial statements and Annual Registration Statement (Form B) (see "Attorney-In-Fact," page 3).*
2. *It is recommended that the Audit Committee meet three times per year, in compliance with the provisions of the Company's Audit Committee Charter (see "Committees," page 5).*
3. *It is recommended that the Board appoint and record its appointment of the Nominating Committee members, annually. The Board shall ensure the committee's membership meets the requirements of 40 P.S. § 991.1405(c)(4.1) (see "Committees," page 5).*
4. *It is recommended that the Company file changes to its by-laws immediately with the Department in compliance with the Department's Financial Filing Requirements (see "By-Laws," page 6).*
5. *It is recommended the Company file for the Department's no objection to this transaction (amendment to AIF Agreement) that was subject to prior notice in compliance with 40 P.S. § 991.1405(a)(2) and 31 Pa. Code § 25.21 (see "Service and Operating Agreements," page 7).*
6. *It is recommended the Company file for the Department's no objection to this transaction (amendment to Reinsurance Consulting Contract) that was subject to prior notice in compliance with 40 P.S. § 991.1405(a)(2) and 31 Pa. Code § 25.21 (see "Service and Operating Agreements," page 7).*
7. *It is recommended that the Company provide to the Department its support that clearly demonstrates how the terms of the Reinsurance Consulting Agreement between the Company and Excalibur are fair and reasonable and how fees for services complies with SSAP No. 25, Paragraph 20. If appropriate support is not provided, it is recommended that the Company terminate the contract (see "Service and Operating Agreements," page 7).*

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8. *It is recommended the Company file for the Department's no objection to this transaction (Cost Sharing/Reimbursement Agreement) that was subject to prior notice in compliance with 40 P.S. § 991.1405(a)(2) and 31 Pa. Code § 25.21 (see "Service and Operating Agreements," page 8).*
9. *It is recommended the Company disclose all affiliated transactions in compliance with 40 P.S. § 991.1404(b)(3) (see "Service and Operating Agreements," page 8).*
10. *It is recommended that the Company record its AA's point estimate for unpaid loss and LAE reserves in future financial statements to comply with the requirements and guidance set forth in SSAP No. 55, Paragraphs 11 – 15. This includes following the concept of conservatism when developing estimates for statutory reporting (see "Loss and Loss Adjustment Expense Reserves," page 19).*

CONCLUSION

As a result of this examination, the financial condition of Housing and Redevelopment Insurance Exchange, as of December 31, 2022, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 47,068,150	100.0 %
Liabilities	32,154,338	68.3 %
Surplus as regards policyholders	14,913,812	31.7 %
Total liabilities and surplus	\$ 47,068,150	100.0 %

Since the previous examination, made as of December 31, 2017, the Company's assets increased by \$3,004,878, its liabilities increased by \$4,559,939, and its surplus decreased by \$1,555,061.

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This examination was conducted by actuarial staff of Casualty Actuarial Consultants, Inc. and by Department staff of David Smith, CISA, CPDSE, AES, CDPP, CFE, Kevin Clark, Jessica Fulton, CFE and Ryan Monahan, CFE with the latter in charge.

Respectfully submitted,

Shannon Hopkins

Shannon Hopkins (Jun 4, 2024 11:00 EDT)

Shannon Hopkins, CFE
Acting Director
Bureau of Financial Examinations

Stephanie Ohnmacht

Stephanie Ohnmacht (Jun 4, 2024 10:55 EDT)

Stephanie Ohnmacht, CFE
Examination Manager

Ryan Monahan

Ryan Monahan (Jun 4, 2024 10:54 EDT)

Ryan Monahan, CFE
Examiner-in-Charge

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