

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Missouri Property and Casualty Insurance Guaranty Association
for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Missouri Property and Casualty Insurance Guaranty Association for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Missouri Property and Casualty Insurance Guaranty Association as of December 31, 2011, be and is hereby ADOPTED as filed and for Missouri Property and Casualty Insurance Guaranty Association to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 11th day of June, 2013.



Handwritten signature of John M. Huff in black ink.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
**MISSOURI PROPERTY AND CASUALTY
INSURANCE GUARANTY ASSOCIATION**

AS OF
DECEMBER 31, 2011



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
PERIOD COVERED.....	1
PROCEDURES.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
ASSOCIATION HISTORY	2
GENERAL.....	2
MEMBERSHIP.....	3
AFFILIATIONS	3
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	4
BOARD OF DIRECTORS	4
COMMITTEES	4
OFFICERS.....	4
INSOLVENCIES.....	5
ASSESSMENTS AND REFUNDS	5
FIDELITY BOND AND OTHER INSURANCE.....	6
EMPLOYEE BENEFITS.....	6
ACCOUNTS AND RECORDS.....	7
FINANCIAL STATEMENTS	7
ASSETS	8
LIABILITIES AND NET ASSETS	8
STATEMENT OF ACTIVITIES.....	9

COMMENTS ON FINANCIAL STATEMENT ITEMS..... 10
EXAMINATION CHANGES..... 10
GENERAL COMMENTS AND/OR RECOMMENDATIONS 10
ACKNOWLEDGMENT 11
VERIFICATION 11
SUPERVISION..... 12

Jefferson City, Missouri
May 10, 2013

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Missouri Property and Casualty Insurance Guaranty Association

hereinafter referred to as "the Association" or "MPCIGA". Its administrative office is located at 994 Diamond Ridge, Suite 102, Jefferson City, Missouri, 65109, telephone number (573) 634-8455. The examination began on February 25, 2013, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope financial examination of the Association was made as of December 31, 2006, and was conducted by examiners from the State of Missouri. The current full scope financial examination covered the period from January 1, 2007 through December 31, 2011, and was conducted by examiners from the State of Missouri. The examination also included the material transactions and/or events occurring subsequent to December 31, 2011.

Procedures

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The examination used mostly a substantive based approach to test material assets and significant liabilities. Limited testing of internal controls was performed due to the small size of the Association's operations.

The examiners relied upon information supplied by the Association's independent auditor, Williams-Keepers, LLC, of Jefferson City, Missouri, for its audit covering the period from January 1, 2011 through December 31, 2011. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal control identification, internal control walkthroughs, bank confirmations, investment market value testing, journal entry testing, unrecorded liability testing, and fraud risk assessment.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2011 through the date of this report.

ASSOCIATION HISTORY

General

MPCIGA was created on September 28, 1971, pursuant to Sections 375.771 to 375.779 of the Revised Statutes of Missouri (RSMo), which is referred to as the "Missouri Property and Casualty Insurance Guaranty Association Act." The Association is a tax-exempt, non-profit legal entity established to cover the claims on policies issued by insurers that have been determined to be insolvent by a court of competent jurisdiction in any state. A "covered claim" of the Association, as defined by Section 375.772 (Association, Created-Definitions), requires that the claimant or insured is a resident of Missouri at the time of the insured event, or the insured property from which the claim arises is permanently located in Missouri. The Association is authorized to assess its members in order to fulfill its obligations.

Section 375.775 RSMo (Association, Powers and Duties) states that covered claims of Missouri residents under any policy (except for worker's compensation) issued by an insolvent insurer shall be paid up to the policy limit, not to exceed a maximum of \$300,000 per claim. Worker's compensation claims are to be paid at the full amount of each claim. Covered claims do not include those from any insured with a net worth of greater than \$25 million.

Membership

As of December 31, 2011, there were 923 companies licensed to sell property and casualty coverage in Missouri. Pursuant to Section 375.772 RSMo, all insurers with authority to transact property or casualty insurance in Missouri are members of the Association and must remain members of the Association as a condition of their authority to transact insurance in Missouri. Section 375.773 RSMo (Accounts, Types of Insurance-Applicability of Law) exempts the following types of direct insurance from the provisions of Sections 375.771 to 375.779 RSMo: life, accident and sickness, title, surety, disability, credit, mortgage guaranty, ocean marine, and assessment insurance written under the provisions of Chapter 383 RSMo (Malpractice Insurance).

Affiliations

The Association is jointly operated with the Missouri Life and Health Insurance Guaranty Association (MLHIGA). An agreement, dated May 8, 2001 between MPCIGA and MLHIGA specifies the manner to allocate joint expenses between the two entities. All joint expenses are paid initially by MLHIGA, which subsequently allocates expenses to MPCIGA. The allocation basis for joint expenses is in proportion to the percentage of time spent by each employee on each entity's business and affairs.

CORPORATE RECORDS

Section 375.776 RSMo (Board of Directors, Selection, Terms-Powers and Duties) requires that a Plan of Operation is to be maintained by the Association to establish various procedures for the Board of Directors, record keeping, and other operational matters. A review was made of the Plan of Operation for the examination period. There were no amendments or changes during the period under examination.

The minutes of the Board of Directors' meetings, membership meetings, and committee meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Association's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The oversight of the Association's operation is performed by a Board of Directors that represent member insurers. Section 375.776 RSMo requires that the number of directors shall be seven. This statute also specifies that directors are to be elected by the member insurers of the Association, subject to approval by the Director of the Missouri DIFP. The Board of Directors elected and serving, as of December 31, 2011, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Charles Burhan	Assistant Vice President, Liberty Mutual Insurance Company
D. Scott Forrest	Vice President of Claims, Cornerstone National Insurance Company
David Monaghan	Government Affairs Counsel, American Family Mutual Insurance Co.
Joe Moseley	Vice President of Public Affairs, Shelter Insurance Companies
Robert Schreiber	Vice President of Insurance, Automobile Club Inter-Insurance Exchange
Michael Voiles	Manager, Farm Bureau Town & Country Insurance Co. of Missouri
Debra Wozniak	Counsel, State Farm Mutual Automobile Insurance Company

Committees

The Plan of Operation states that a Nominating Committee will be staffed to recommend a new director if a vacancy exists on the Board of Directors.

Officers

The officers elected by the Board of Directors and serving, as of December 31, 2011, were as follows:

<u>Name</u>	<u>Office</u>
Michael Voiles	Chairman of the Board
Debra Wozniak	Vice Chair
David Monaghan	Secretary and Treasurer

Also serving in the non-elected position of Executive Director and Managing Secretary is Charles Renn.

INSOLVENCIES

As of December 31, 2011, the Association administered 50 open insolvencies, which included 30 insolvencies with no open claims. No insolvencies occurred during the examination period that represented a material amount of claims from Missouri policyholders. Below is a listing of new insolvencies and closed insolvencies during the examination period:

New Insolvencies:

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Liquidation Date</u>
Lawrenceville Property and Casualty Company	Virginia	4/9/2008
Park Avenue Property and Casualty Insurance Co.	Oklahoma	11/18/2009
Imperial Casualty and Indemnity Company	Oklahoma	5/12/2010
Atlantic Mutual Insurance Company	New York	4/27/2011
Centennial Insurance Company	New York	4/27/2011

Closed Insolvencies:

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Closed Date</u>
S & H Insurance Company	California	4/30/2007
Ohio General Insurance Company	Ohio	12/31/2007
Hamilton Insurance Company	Pennsylvania	5/15/2008
International Indemnity Insurance Company	Illinois	7/31/2008
Associated Physicians Insurance Company	Illinois	12/9/2008
PIE Mutual Insurance Company	Ohio	4/20/2010
Sable Insurance Company	California	7/26/2011

ASSESSMENTS AND REFUNDS

Assessments are levied at the discretion of the Board of Directors whenever funds are needed to pay claims and expenses. Assessments are limited to 1% of the net direct written premium of each member insurer. Per Section 375.775 RSMo, assessments of member insurers are based on the insurer's proportion of net direct written premium for the prior year for all Missouri licensed insurers. Assessments require the approval of a majority of the Board of Directors. There were no assessments of member insurers during the examination period.

Refunds may be issued to member insurers, pursuant to Section 375.775 RSMo, in any year in which the Association's assets are projected to exceed liabilities for the upcoming year. Assessments previously paid by member insurers can be fully recovered through tax credits on premium tax returns. Therefore, refunds are usually issued to the State of Missouri instead of member insurers. The Association refunded \$8,000,000 to the State of Missouri in 2007 mostly due to an excess of net assets for the insolvent Legion Insurance Company. The Association refunded \$19,293,249 to the State of Missouri in 2010 due to the closing of the insolvency for P.I.E. Mutual Insurance Company and the excess net assets that had accumulated since the insolvency began in 1998.

FIDELITY BOND AND OTHER INSURANCE

The Association is a named insured on a business owner's policy that covers losses resulting from fraudulent or dishonest acts of an employee. The Missouri Life and Health Insurance Guaranty Association is also a named insured on this bond. The bond provides coverage with a liability limit of \$500,000 and a \$500 deductible. This level of coverage complies with the suggested minimum coverage recommended by the NAIC Financial Examiner's Handbook.

The Association is also a named insured on the following other insurance policies: commercial general liability, commercial excess liability, business personal property, and worker's compensation and employer's liability.

EMPLOYEE BENEFITS

As of December 31, 2011, MPCIGA and MLHIGA jointly employed six employees located in an office in Jefferson City, Missouri. A variety of standard benefits are provided to the employees, which include the following: medical insurance, health savings account, dental and vision benefit reimbursement, life insurance, disability insurance, and personal time off (vacation / sick leave). Employees are also provided with a 401(k) savings / retirement plan, which provides for an employer contribution equal to 8% of annual salary each year. Benefit costs for joint employees are allocated to MPCIGA pursuant to an agreement that is described in the Affiliations section of this report.

ACCOUNTS AND RECORDS

The Association's financial statements are reported using Generally Accepted Accounting Principles (GAAP). A change to the GAAP accounting basis was made, effective January 1, 2010, from the modified cash basis that was previously used.

The CPA firm, Williams-Keepers, LLC, of Jefferson City, Missouri performed the audits of the Association's financial statements for each year of the examination period.

The actuarial opinion regarding the Association's reserves for losses and loss adjustment expenses, as of December 31, 2011, was issued by Alexander Laurie, FCAS, MAAA, of Towers, Watson & Co., in St. Louis, Missouri. Towers, Watson & Co. performed the actuarial review of reserves for each year of the examination period.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association for the period ending December 31, 2011. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the Comments on Financial Statement Items. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the Comments on Financial Statement Items section. These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Association and noted in the workpapers.

Assets
as of December 31, 2011

Cash and Cash Equivalents	\$ 4,487,264
Investments	82,919,216
Accounts Receivable	396,628
Unbilled Assessments	32,946,235
Computer Software	<u>36,123</u>
TOTAL ASSETS	<u>\$120,785,466</u>

Liabilities and Net Assets
as of December 31, 2011

Accounts Payable	\$ 93,522
Due to Missouri L&H Association	40,886
Early Access Liability	71,791,347
Reserves for Losses and LAE	<u>30,501,097</u>
TOTAL LIABILITIES	\$102,426,852
Net Unrestricted Assets	<u>18,358,614</u>
TOTAL LIABILITIES AND NET UNRESTRICTED ASSETS	<u>\$120,785,466</u>

Statement of Activities
For the Year Ended December 31, 2011

Assessment Income	\$ 0
Liquidation Distributions	7,374,386
Net Investment Return	3,170,638
Change in Unbilled Assessments	<u>(5,996,742)</u>
Total Support and Revenues	\$4,548,282
Losses and LAE Expenses	\$2,594,426
Change in Loss and LAE Reserves	(4,330,680)
General and Administrative Expenses	531,576
Miscellaneous Expenses	<u>840</u>
Total Expenses	(\$1,203,838)
Change in Net Unrestricted Assets	<u>\$5,752,120</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Property and Casualty Insurance Guaranty Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
County of *Boone*)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Missouri Property and Casualty Insurance Guaranty Association its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

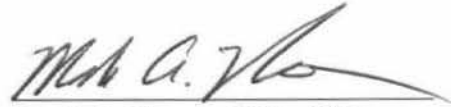
Sworn to and subscribed before me this 6th day of May, 2013.

My commission expires: May 1, 2016 *Debbie J. Nolke*
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires 5/1/2016
Commission #12413452

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Mark A. Nance", with a long horizontal flourish extending to the right.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP