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 Insurance Placement Facility for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Missouri Proerty Insurance Placement Facility 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 Insurance Placement Facility as of December 31, 2011, be and is hereby ADOPTED as filed and for Missouri Property Insurance Placement Facility 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 30th day of July, 2012.

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

FINANCIAL EXAMINATION

Missouri Property Insurance Placement Facility

AS OF:
DECEMBER 31, 2011

FILED
AUG 09 2011
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

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

JEFFERSON CITY, MISSOURI

Contents

SCOPE OF EXAMINATION 1
Period Covered 1
Procedures 1
COMMENTS PREVIOUS EXAMINATION 1
HISTORY 2
General 2
Management 3
Conflict of Interest 4
Corporate Records 4
Acquisitions, Mergers and Major Corporate Events 5
Surplus Debentures 5
AFFILIATED COMPANIES 5
Holding Company, Subsidiaries and Affiliates 5
FIDELITY BOND & OTHER INSURANCE 5
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS 5
STATUTORY DEPOSITS 5
INSURANCE PRODUCTS AND RELATED PRACTICES 5
Territory and Plan of Operations 5
Policy Forms & Underwriting; Treatment of Policyholders; Advertising & Sales Materials 6
REINSURANCE 6
Assumed 6
Ceded 6
ACCOUNTS AND RECORDS 7
General 7
Independent Auditor 7
Independent Actuary 7
FINANCIAL STATEMENTS 8
ASSETS 9
LIABILITIES AND SURPLUS 9
STATEMENT OF OPERATIONS 10
CAPITAL AND SURPLUS ACCOUNT 10
EXAMINATION CHANGES 10

COMMENTS ON FINANCIAL STATEMENTS 10
SUMMARY OF RECOMMENDATIONS 10
SUBSEQUENT EVENTS 10
ACKNOWLEDGMENT 11
VERIFICATION 11
SUPERVISION 11

June 6, 2012
Saint Louis, MO

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

Director Huff:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of:

Missouri Property Insurance Placement Facility (FAIR Plan)

hereinafter referred to as such or as the "Facility." The Facility's statutory home office is located at 906 Olive Street, Suite 1000; St. Louis, Missouri, 63101, telephone number (314) 421-0170. This examination began on February 6, 2012, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered
The last full scope financial examination of the Facility was made as of December 31, 2006, by examiners from the state of Missouri

The current full scope association financial examination covers the period from January 1, 2007, through December 31, 2011. This examination also included material transactions and/or events occurring subsequent to December 31, 2011.

Procedures
This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) and statutes of the state of Missouri prevailed.

COMMENTS PREVIOUS EXAMINATION

The prior examination report did not contain any comments or recommendations.

HISTORY

General

The Facility was created in response to the Federal Urban Property Protection Act of 1968. Beginning in May 1969, the FAIR (Fair Access to Insurance Requirements) Plan was formed and operated on a voluntary basis. Approximately 250 companies participated in the voluntary plan.

On October 13, 1969, the Missouri Property Insurance Placement Facility was legislated into existence by House Bill 772 of the 75th general assembly. The legislation made it mandatory for all Missouri insurers writing habitational or commercial coverage on a direct basis to participate in the risk of insuring the Facility's policies.

On April 13, 1986, the statutes governing the Facility were amended to include farm properties and the limit of commercial insurance was increased to $1,000,000.

On July 20, 1987, the Facility revised its Plan of Operation to include an improved indemnification agreement, legislated expansion into farm business and increased the limits of liability.

On July 6, 1988, the Facility made available "New Crime Business" coverage with the approval of the Department of Insurance, Financial Institutions and Professional Registration.

On April 12, 1991, the Facility revised its Plan of Operation to waive assessments or distributions of amounts of $100 or less.

On August 28, 2004, the statutes governing the Facility were amended to increase the residential liability limit to $200,000.

In 2007, the statutes governing the Facility were amended to revise the composition of the governing committee. The Facility amended its Plan of Operation accordingly.

Management

Section 379.860 RSMo (Administration of program--governing committee, members, vacancies) states that the Facility shall be administered by a governing committee consisting of thirteen members, subject to supervision of the Director of the Department. The statute requires that the committee consist of members from the organizations listed below:

2 Members	American Insurance Association
1 Member	National Association of Mutual Insurance Companies
2 Members	Property Casualty Insurance Association of America
1 Member	Missouri Insurance Coalition
2 Members	Stock Insurers
2 Members	Non-Stock Insurers
2 Members	Licensed Agent of Insurers
1 Member	Missouri Insurers

Individuals representing each category are selected by the respective organization. Committee members are elected annually. Members serving at December 31, 2011, were as follows:

Company	Affiliation
Hartford Insurance Company	American Insurance Association
Fireman's Fund Insurance Company	American Insurance Association
Liberty Mutual Insurance Company	National Assoc. of Mutual Ins. Companies
Automobile Club Inter-Insurance Exchange	Property Casualty Ins. Assoc. of America
American Family Mutual Insurance Co.	Property Casualty Ins. Assoc. of America
Farmers Insurance Company	Missouri Insurance Coalition
State Farm Insurance Company	All Other Non-Stock Insurers
Lititz Mutual Insurance Company	All Other Non-Stock Insurers
Allied Property & Casualty Insurance Co.	All Other Stock Insurers
Cincinnati Insurance Company	All Other Stock Insurers
Susan Clift	Licensed Agents
Christopher Trick	Licensed Agents
Cameron Mutual Insurance Company	Missouri Insurers

Section 379.870 RSMo (Duties of the committee) requires the governing committee to appoint a manager to budget expenses, levy assessments, disburse funds and perform other duties as necessary. The Facility's Plan of Operation allows the Governing Committee to appoint additional employees as necessary for the daily operations of the Facility. Managers serving as of December 31, 2011, were as follows:

Name	Office
William Kloecker	Manager
Victoria Byington	Operations Manager

Section 379.870 RSMo (Duties of the committee) requires the Facility to establish an underwriting committee to review risks submitted for insurance coverage. The statute allows the Facility to establish other committees as deemed appropriate. The committees existing at December 31, 2011, are listed below.

Executive Committee	
Lititz Mutual Insurance Company	Chair
Liberty Mutual Insurance Company	Member
American Family Mutual Insurance Company	Member
Automobile Club Inter-Insurance Exchange	Member

Underwriting Committee	
State Farm Insurance Company	Chair
American Family Mutual Insurance Company	Member
Cameron Mutual Insurance Company	Member

Claims Committee	
American Family Mutual Insurance Company	Chair
Hartford Insurance Company	Member
Cameron Mutual Insurance Company	Member

Legislative Committee	
Farmers Fund Insurance Company	Chair

Conflict of Interest

The Facility requires all managers to complete conflict of interest disclosure statements annually. The conflict of interest statements were reviewed for each year during the examination period. No material conflicts were indicated on any of the statements.

Corporate Records

The Facility operates under the "Missouri Basic Property Insurance Inspection and Placement Program" established in 1969 in accordance with Sections 379.810 to 379.880 RSMo.

Section 379.835 RSMo (Joint reinsurance association) calls for the adoption of the Plan of Operation, which is similar to the bylaws of a corporation. Any amendments to the Plan of Operation must be filed with the Director of the Department of Insurance, Financial Institutions and Professional Registration. The Plan of Operation was revised in 2007 to align the composition of the governing committee with the requirements of the amended statute.

Meeting minutes of the members and governing committee were reviewed and appear to reflect proper approval of transactions and events during the examination period. The governing committee acknowledged its receipt and review of the Report of Financial Examination made as of December 31, 2006, on September 26, 2007.

Acquisitions, Mergers and Major Corporate Events
There were no acquisitions, mergers or major corporate events during the current examination period.

Surplus Debentures
The Facility has not issued any surplus debentures.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates
The Facility does not have any subsidiaries or affiliates.

FIDELITY BOND & OTHER INSURANCE

The Facility's fidelity coverage of $500,000 exceeds the minimum amount of insurance suggested by National Association of Insurance Commissioners guidelines for an operation of this size.

The Facility also maintains the following coverage: Workers Compensation; Employers Liability; Commercial Crime; Commercial Liability Umbrella; and, Businessowners. The Facility appears to be adequately protected by its insurance coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

At year-end 2011, the Missouri Property Insurance Placement Facility had eight employees. Employees receive a comprehensive benefit package including: an employer-funded defined benefit pension plan, a defined contribution 401(k) plan, group life and health insurance, employer funded long term disability insurance, tuition reimbursement, vacation, paid holidays and a salary continuation plan.

Salary and benefit expenses are reviewed and approved annually by the governing committee as part of the budget approval process. Pension and other post-retirement benefit costs are calculated annually by a consulting actuary. The expenses and liabilities associated with employee benefits appear to have been properly reported in the Annual Statement.

STATUTORY DEPOSITS

The Facility is not required to establish a statutory deposit with the state of Missouri or any other states.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations
The purpose of the Facility is to provide fair access to insurance to those having an insurable interest in property, who are in good faith entitled to such insurance, but who are unable to obtain such insurance in the open market.

The Facility provides basic property insurance coverage on habitational and commercial risks within the state of Missouri. Pursuant to Section 379.825 RSMo (Issuance of policy, when—appointment of liability assumed—expenses—limits on liability) the maximum limits on policies issued by the Facility are $200,000 for habitational coverage and $1,000,000 for commercial coverage. Premiums are based on Insurance Service Office (ISO) premium rates and are approved by the Department. Facility profits or losses are transmitted to the membership proportionately through assessments or distributions.

The Facility has no certificate of authority nor does it have a license from any state. The Facility is a syndicate representing all property insurance companies licensed to write business in the state of Missouri; all policies are issued through the Missouri Property Insurance Placement Facility.

Policy Forms & Underwriting; Treatment of Policyholders; Advertising & Sales Materials
The Department has a market conduct staff that performs a review of issues regarding the treatment of policyholders and generates a separate market conduct examination report. The last market conduct examination was performed as of December 31, 2006, covering the period of January 1, 2006, to December 31, 2006. The market conduct examination report was issued June 28, 2007. There were no findings in that report that would appear to materially impact the Facility's financial condition.

REINSURANCE

Assumed
The Facility does not assume any reinsurance from other insurance carriers.

Ceded
As prescribed by Section 379.810 RSMo (Program established), the Facility is responsible for the equitable distribution of risks among all Missouri licensed property insurers. Therefore, the "Joint Reinsurance Association" was formed under Section 379.835 RSMo (Joint reinsurance association) consisting of all Missouri licensed property insurers. The Facility cedes one hundred percent of business written to the "Joint Reinsurance Association." Assessments or distributions are made as needed to cover losses or return profits of the Facility. Assessments or distributions are made based on each insurer's proportion of premiums written to the aggregate of all premiums written in the state of Missouri.

During the period under examination, an interim assessment was made for policy year 2010 and policy years 2005 thru 2009 were closed. A historical summary of assessments and distributions made for habitational and commercial business follows:

	Assessment / (Distribution)	
Year	Habitational	Commercial
Prior to 2000	$ 12,453,540	$ (3,446,643)
2000	585,169	(156,289)
2001	965,474	(85,869)
2002	469,074	(89,276)
2003	892,831	(98,705)
2004	613,182	(183,873)
2005	1,002,731	(265,177)
2006	2,064,415	(164,783)
2007	$948,459.43	($177,823.46)
2008	$869,904.70	($142,584.82)
2009	$1,636,806.65	$62,733.22
2010	$358,368.46	$36,386.45
2011	$829,361.12	$332,263.40
Total	$23,689,317.01	($4,379,639.72)

ACCOUNTS AND RECORDS

General

The Facility prepares its Annual Statement as if it retained all business written. In November 1973, the Department prescribed that the financial statements be prepared "to show the operation of the Facility as a whole, which does not reflect the cession of business to the participating companies." The Facility has followed the prescribed practice on all subsequent Annual Statement filings.

The Facility's electronic records are maintained on a DEC Open VMS server with dumb terminals. The general ledger, policy administration, claims and accounts payable functions are administered using internally developed software.

Independent Auditor

The Facility's statutory financial statements are audited annually by the public accounting firm Conner Ash P.C. Workpapers of the December 31, 2010, audit were reviewed and utilized during the course of this examination when deemed appropriate. The 2011 audit workpapers were not available when this examination was performed.

Independent Actuary

No independent actuarial opinion was made for the Facility.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Facility as of December 31, 2011, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column 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 "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Facility and noted in the examination workpapers.

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Cash, short-term investments and cash equivalents	$ 1,108,648	$ -	$ 1,108,648
Investment income due	2	-	2
Uncollected premiums	39,178	-	39,178
Deferred premiums	136,927	-	136,927
EDP equipment	1,553	-	1,553
Furniture and equipment	9,030	9,030	-
Prepaid expenses	21,866	21,866	-
Total Assets	$ 1,317,204	$ 30,896	$ 1,286,308

LIABILITIES AND SURPLUS

Losses	$ 255,544
Loss adjustment expenses	78,782
Commissions payable	43,800
Other expenses	30,555
Taxes, licenses and fees	(3,291)
Unearned premiums	1,166,492
Advance premium	100,316
Amounts withheld by company for others	59,709
Accumulated post-retirement benefits	1,095,717
Accrued pension benefits	871,594
Total Liabilities	$ 3,699,218
Unassigned funds (surplus)	(2,412,909)
Total liabilities and surplus	$ 1,286,309

STATEMENT OF OPERATIONS

Premiums earned	$ 2,458,436
Losses incurred	1,672,324
LAE incurred	321,939
Other underwriting expenses incurred	1,117,470
Total underwriting deductions	3,111,733
Net underwriting loss	(653,297)
Net investment income	952
Miscellaneous income	21,351
Net income	$ (630,994)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2010		$ (2,550,028)
Net income	(630,994)	
Change in non-admitted assets	(4,505)	
Net assessment	1,161,625	
Net change in pension plan	(389,006)	
Change in surplus		137,120
Surplus as regards policyholders, December 31, 2011		$ (2,412,908)

EXAMINATION CHANGES

There are no examination changes.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the Facility's financial statements.

SUMMARY OF RECOMMENDATIONS

There are no examination recommendations.

SUBSEQUENT EVENTS

On April 3, 2012, the Facility filed an amended annual statement to correct a classification error that had no impact on surplus. The above financial statements reflect the correction.

ACKNOWLEDGMENT

The assistance and cooperation extended by the Missouri Property Insurance Placement Facility during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Arthur Palmer, CFE, and Andrew Coppedge, AFE, examiners for the Department, participated in this examination.

VERIFICATION

State of Florida)
) ss
County of Palm Beach)

I 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 the Facility, 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.

Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 13th day of March '12.
My commission expires:

Jan. 16, 2015

Notary Public

MARGARET L. ROUKES
MY COMMISSION # EE 045770
EXPIRES: January 16, 2015
Bonded Thru Notary Public Underwriters

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 the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens, CFE
Audit Manager
Department of Insurance, Financial Institutions
and Professional Registration