

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

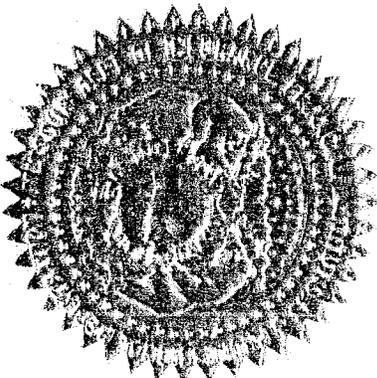
RE: Examination Report of Missouri Property & Casualty Insurance Guaranty Association as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Missouri Property & Casualty Insurance Guaranty Association for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Missouri Property & 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 mentioned in the General Comments and/or 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 October 5, 2007.



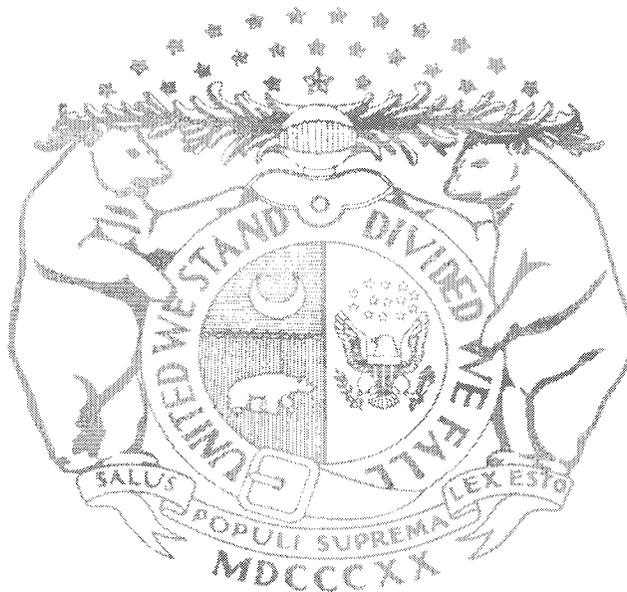
A handwritten signature in black ink, appearing to read "Douglas M. Ommen".

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

**Missouri Property and Casualty
Insurance Guaranty Association**

as of
December 31, 2006



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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August 3, 2007
Jefferson City, MO

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

Dear Sir:

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

Missouri Property and Casualty Insurance Guaranty Association

also referred to as such or as the "Association." The location of the Association's administrative office is 994 Diamond Ridge, Suite 102, Jefferson City, MO 65109. The Association's telephone number is (573) 634-8455. This examination began on June 4, 2007 and concluded August 3, 2007.

SCOPE OF EXAMINATION

Period Covered

The last financial examination of the Association was performed as of December 31, 2003, by an examiner from the state of Missouri. The current financial examination covers the period from January 1, 2004, through December 31, 2006, and was conducted by an examiner from the state of Missouri. This examination also included material transactions and/or events occurring subsequent to December 31, 2006.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration and statutes of the State of Missouri prevailed. The Association is governed by Sections 375.771 to 375.779 RSMo (Missouri Property and Casualty Insurance Guaranty Association Act). The examination verified that the Association is complying with the provisions of these statutes.

The workpapers of the Association's independent auditor were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

The workpapers of the Association's independent auditor were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

There were no comments or recommendations included in the prior examination report.

HISTORY

General

The Missouri Property and Casualty Insurance Guaranty Association, a tax-exempt, non-profit unincorporated legal entity organized under Internal Revenue Code Section 115, was established on September 28, 1971, under the provisions of Sections 375.771 to 375.779 RSMo. Per Section 375.775 RSMo, (Association, powers and duties), the purpose of the Association is to protect policyholders against failure in the performance of contractual obligations under property and casualty insurance policies because of impairment or insolvency of the insurer issuing such policies. Further, the Association has a responsibility to assist the Director of the Department of Insurance, Financial Institutions and Professional Registration in detecting and preventing insurer impairments and insolvencies. The Association is authorized to assess its members in order to fulfill its obligations.

Membership

As of December 31, 2006, there were 883 companies licensed to sell property and casualty coverage in Missouri. According to Section 375.772 RSMo, (Association, created-definitions), 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.

Management

Section 375.776 RSMo (Board of directors, selection, terms-powers and duties) requires a Board of Directors consisting of seven member insurers, not less than four of which are Missouri-domiciled insurers. Terms of office are determined by the Association's Plan of Operation, which stipulates staggered terms of three years. At year-end 2006, the Board of Directors consisted of the following members:

<u>Member Insurer</u>	<u>Term Ends</u>	<u>Representative</u>
American Family Mutual Insurance Company 3600 Amazonas Drive Jefferson City, MO 65102	2007	David A. Monaghan
Automobile Club Inter-Insurance Exchange 12901 North 40 Drive St. Louis, MO 63141	2008	William A. Erdman
Cornerstone National Insurance Company 3100 Falling Leaf Court Columbia, MO 65205	2008	D. Scott Forrest
Farm Bureau Town and Country Ins. Co. of MO 701 South Country Club Drive Jefferson City, MO 65109	2007	Michael P. Voiles
Liberty Mutual Insurance Company 900 North National Parkway, Suite 300 Schaumburg, IL 60173	2007	Charles H. Burhan
Shelter Insurance Company 1817 West Broadway Columbia, MO 65218	2009	Joe L. Moseley
State Farm Mutual Automobile Insurance Co. One State Farm Plaza A-3 Bloomington, IL 61710	2009	Debra G. Wozniak

The officers elected and serving at December 31, 2006 were:

<u>Name</u>	<u>Office</u>
Michael P. Voiles, Farm Bureau Town and Country Ins. Co. of MO	Chair
Debra G. Wozniak, State Farm Mutual Automobile Insurance Co.	Vice-Chair
David A. Monaghan, American Family Mutual Insurance Company	Secretary/Treasurer

The officers of the Association comprise the Executive Committee. The Board delegates the operation of the Association to an Executive Director. In April 2001, the Board approved a joint administration agreement with the Missouri Life and Health Guaranty Association. At that time Charles Renn became the Executive Director for both entities.

Conflict of Interest

Directors, officers and key employees of the Association execute conflict-of-interest statements annually. The statements for the period under examination were reviewed. No material conflicts were disclosed.

Corporate Records

The Association has adopted a Plan of Operation, which has been amended to be in compliance with the NAIC Model Plan, Section 375.775 RSMo (Settlement of claims; powers of association) and Section 375.776 RSMo (Board of directors, selection, terms). The most recent amendment was on September 30, 2003.

The minutes of the Annual Membership and Board of Directors meetings were reviewed for the period under examination. The minutes appear to properly support the corporate transactions and events for the period under examination. The Board reviewed and approved the December 31, 2003 Report of Financial Examination on February 17, 2005.

Surplus Debentures

The Association does not have any surplus debentures issued or outstanding.

Letter of Credit

The Association maintains a \$15,000,000 unsecured revolving line-of-credit with Central Bank of Jefferson City. Interest accrues at a rate of .05 percent over the JP Morgan Chase Bank prime rate. The line-of-credit was opened April 5, 2002 and has been renewed annually. There were no borrowings under this agreement during the examination period.

AFFILIATED COMPANIES

Holding Company

The Association is not a member of a holding company system nor does it have any subsidiaries or affiliates.

INSOLVENCIES

The Plan of Operation requires that the annual report contain a review of the activities of the Association during the preceding year. The Association lists open insolvencies in the annual report to fulfill that requirement. Open insolvencies by domicile state and year of insolvency at December 31, 2006 were as follows:

<u>Company</u>	<u>Domicile</u>	<u>Year</u>
Ideal Mutual Ins. Co.	NY	1985
Early American Ins. Co.	AL	1985
S&H Ins. Co.	CA	1985

Transit Casualty Ins. Co.	MO	1985
Union Indemnity Ins. Co.	NY	1985
American Druggist Ins. Co.	OH	1986
American Fidelity Ins. Co.	NY	1986
Midland Ins. Co.	NY	1986
Integrity Ins. Co.	NJ	1987
Great Global Assurance Co.	AZ	1988
American Mutual Ins. Co. of Boston	MA	1989
American Mutual Liability Ins. Co.	MA	1989
Great Atlantic Ins. Co.	DE	1989
Ohio General Ins. Co.	OH	1990
American Universal Ins. Co.	RI	1991
Rockwood Ins. Co.	PA	1991
Western Employers Ins. Co.	CA	1991
First Southern Ins. Co.	FL	1992
West General Ins. Co.	KS	1992
Bel-Aire Ins. Co.	MO	1993
State Security Ins.	IL	1993
Employers Casualty Ins.	TX	1994
Employers National Ins.	DE	1994
Premier Alliance Ins. Co	CA	1994
Professional Medical Ins.	MO	1994
United Community Ins. Co.	NY	1995
Coronet Ins. Co.	IL	1996
Lutheran Benevolent Ins. Exchange	MO	1996
United Southern Assurance Co.	FL	1996
American Eagle Ins. Co.	TX	1997
Insurance Corporation of America	TX	1997
PIE Mutual Ins. Co.	OH	1998
California Compensation Ins. Co.	CA	2000
Commercial Compensation Casualty Co.	CA	2000
Hamilton Ins. Co.	PA	2000
HIH America Compensation & Liability LMI	CA OH	2000
Acceleration National Ins. Co.	OH	2001
Credit General Ins. Co.	OH	2001
International Indemnity Co.	GA	2001
Reliance Ins. Co.	PA	2001
Sable Ins. Co.	CA	2001
PHICO Ins. Co.	PA	2002
Fremont Insurance Co.	CA	2003
Home Insurance Co.	NH	2003
Legion Ins. Co.	PA	2003
Villanova Ins. Co.	PA	2003

Millers Insurance Co.	TX	2003
Reciprocal of America	VA	2003
Casualty Reciprocal Exchange	MO	2004
Equity Mutual Insurance Co.	MO	2004
IGF Insurance Co.	IN	2004
Security Indemnity	NJ	2004
Statewide Insurance Co.	IL	2004
Consolidated American Ins. Co.	SC	2006
Shelby Casualty Ins. Co.	TX	2006
Vesta Fire Ins. Co.	TX	2006

INSOLVENCY ASSESSMENTS

Assessments are levied at the discretion of the Board whenever funds are needed to pay claims and expenses. Assessments are limited to 1% of the net direct written premium of the 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-domiciled insurers.

Assessments require the approval of a majority of the Board of Directors. The Board meeting minutes for the period under examination included authorizations of all assessments.

Following is a summary of assessments levied during the examination period:

<u>Year Ending</u>	<u>Automobile</u>	<u>Workers' Comp</u>	<u>All Others</u>
12/31/2004	-	\$ 9,042,430	-
12/31/2005	-	7,227,710	-
12/31/2006	-	<u>2,516,150</u>	-
	-	\$ 18,786,290	-

FIDELITY BOND & OTHER INSURANCE

Missouri Property and Casualty Insurance Guaranty Association is a named insured on a business policy providing coverage against losses due to dishonest or fraudulent employee acts with a limit of liability of \$500,000. The Company is also covered against loss from various hazards and perils by additional policies some of which are described below:

Building Personal Property	Tenant Legal Liability
Umbrella Liability	Business Auto Liability
Fire Damage	Medical Expense Liability
General Liability	Employer's Liability
Workers' Compensation	

EMPLOYEE BENEFITS

The Association has a staff of five full-time employees. The Association provides employees with a benefit package including paid vacation, paid sick leave, paid holidays, health and dental insurance, life insurance and long-term disability insurance.

The Association sponsors a 401(k) plan covering full-time employees with at least one year of service. The Board of Directors contributes to the plan on a discretionary basis. For each year under examination, the Association contributed 8% of an employee's gross salary to the retirement plan. The Association does not maintain any other post-employment or post-retirement benefit plans.

ACCOUNTS AND RECORDS

The Association prepares its financial statements on a modified cash basis. Trial balances for the period under examination were traced to the annual statement without material exception.

The Association is audited annually by an independent accounting firm. The Association's auditor for the years under examination was Williams Keepers, LLC, CPA. CPA workpapers for the most recent audit were reviewed and used in the examination process as deemed appropriate.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2006, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (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 "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual Annual Statement item.

ASSETS

Cash and cash equivalents	\$	1,069,058
Accounts receivable		626,468
Short-term investments		32,392,459
Unbilled assessments		40,214,566
Long-term investments		45,029,795
Capital assets		<u>21,073</u>
Total Assets	\$	<u>119,353,419</u>

LIABILITIES AND NET ASSETS

Due to MOLHIGA	\$	30,378
Due GAB		428,721
Early Access – Lg deduct reimb.		227,517
CB Payable – Line of credit		1
Funds held for others		57,635,507
Estimated claims payable (LAE)		8,938,215
Estimated claims payable (Loss/Auto)		1,433,513
Estimated claims payable (Loss/WC)		38,134,045
Estimated claims payable (Loss/Other)		13,524,455
Estimated claims payable (RP)		<u>74,872</u>
Total Liabilities	\$	120,427,224
Total Net Assets		<u>(1,073,803)</u>
Total Liabilities and Fund Balance	\$	<u>119,353,421</u>

SUMMARY OF OPERATIONS

Revenues

Assessment income	\$	2,516,150
Change in unbilled assessments		(11,575,128)
Liquidation distributions		4,359,554
Investment income		3,069,082
Total Revenues	\$	<u>(1,630,342)</u>

Expenses

Losses paid (net of subrogation)	\$	7,271,152
Loss adjustment expenses		1,435,080
Unearned premium claims		227,339
Change in estimated claims		(43,910,749)
TPA expense		36,619
General and administrative		557,994
Total Expenses	\$	<u>(34,382,565)</u>
Net Income / (Loss)	\$	<u>32,752,223</u>

CHANGE IN NET ASSETS

Net Assets, prior year	\$	27,263,272
Net Income / (Loss)		32,752,223
Prior Period Adjustment		(54,089,298)
Refunds to State / Members		<u>(7,000,000)</u>
Net Assets, current year	\$	<u>(1,073,803)</u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

During a meeting held February 22, 2007, the board approved a refund of \$2,000,000 to the Missouri Department of Revenue. The refund check was issued February 28, 2007.

