

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

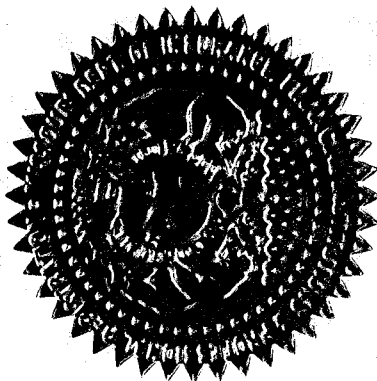
RE: Examination Report of Missouri Property Insurance Placement Facility as of
December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Missouri Property Insurance Placement Facility 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 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 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 May 16, 2007.

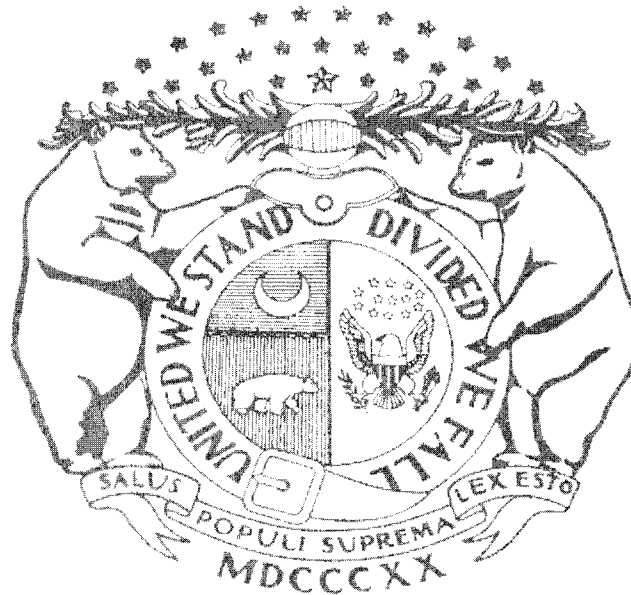


A handwritten signature in black ink, appearing to read "Douglas M. Ommen".

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

REPORT OF
FINANCIAL EXAMINATION

MISSOURI PROPERTY INSURANCE PLACEMENT FACILITY



AS OF
DECEMBER 31, 2006

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 9, 2007
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director
Department of Insurance
State of Ohio
Secretary, Midwestern Zone, NAIC

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

Dear Sirs/Madam:

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 Insurance Placement Facility

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, telephone number (314) 421-0170. This examination began on February 13, 2007 and concluded on March 9, 2007.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Facility was made as of December 31, 2003, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2004, through December 31, 2006, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

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, 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.

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 who write habitational and 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.

Management

Section 379.860 RSMo (Governing committee) states that the Facility shall be administered by a governing committee consisting of thirteen members, subject to supervision of the Director of the Department of Insurance, Financial Institutions and Professional Registration. The statute requires that the committee consist of members from each of the organizations/categories 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, 2006, were as follows:

<u>Company</u>	<u>Affiliation</u>
Hartford Insurance Company	American Insurance Association
Firemans Fund Insurance Company	American Insurance Association
Liberty Mutual Insurance Company	National Assoc. of Mutual Ins. Companies
Employers Mutual Insurance Company	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
Bowersox Insurance Agency	Licensed Agents
Crane Insurance Agency	Licensed Agents
Cameron Mutual Insurance Company	Missouri Insurers

Section 379.870 RSMo (Duties of governing committee) requires the governing committee to appoint a manager to budget expenses, levy assessments, disburse funds and perform other duties as necessary. The Facility 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, 2006, were as follows:

<u>Name</u>	<u>Office</u>
William Kloecker	Manager
Ronald Allen	Claims Manager
Victoria Byington	Underwriting Manager

Section 379.870 RSMo (Duties of governing committee) calls for the establishment of an underwriting committee to review risks submitted for insurance and any other committees deemed necessary. The committees existing at December 31, 2006 are listed below.

Executive Committee

State Farm	Chairman
Lititz Mutual	Member
Firemans Fund	Member

Claims Committee

American Family	Chairman
Liberty Mutual	Member
Bowersox	Member

Underwriting Committee

State Farm	Chairman
Allied Property & Casualty	Member

Legislative Committee

Farmers Insurance Company	Chairman
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Conflict of Interest

The Facility has a policy requiring 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. Changes occurring during the current examination period were a result of legislation. The changes revised the structure of the governing committee and increased the level of insurance coverage provided by the Facility.

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, 2003 on May 11, 2005.

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 maintains the following types of insurance coverage for its property and employees:

<u>Coverage Type</u>	<u>Limit</u>	
Fidelity Bond	\$500,000	Annual Aggregate
Workers Compensation	Statutory Limits	
Employers Liability-Accident	\$500,000	Per Accident
Employers Liability-Disease	\$500,000	Per Employee
Business-Personal Property	\$138,400	Aggregate
Earthquake	\$138,400	Aggregate
Business Liability	\$1,000,000	Aggregate
Business-Medical Payments	\$5,000	Per Person
Fire Legal Liability	\$50,000	Per Fire or Explosion
ERISA Fidelity Bond (401k)	\$500,000	Aggregate

The Facility's fidelity coverage of \$500,000 complies with the minimum amount of insurance suggested by National Association of Insurance Commissioners guidelines for a company this size.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

At year-end 2006, the Missouri Property Insurance Placement Facility had 11 employees. The employees receive a comprehensive benefit package that includes the following: 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, 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.

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 it in the normal market.

The Facility provides basic property insurance coverage on habitational and commercial risks within the state of Missouri. Pursuant to Section 379.825 RSMo (Risk assignment) the maximum limits issued by the Facility are \$200,000 for habitational policies and \$1,000,000 for commercial policies. The Facility charges policyholders Insurance Service Office premium rates approved by the Missouri Department of Insurance, Financial Institutions and Professional Registration. Losses or profits of the Facility are passed on to the "Joint Reinsurance Association" who assumes 100% of the Facility's liabilities as prescribed by Section 379.835 RSMo (Joint reinsurance association).

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 and all policies are issued through the Missouri Property Insurance Placement Facility.

Policy Forms & Underwriting; Treatment of Policyholders; Advertising & Sales Materials

The Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff that performs a review of issues regarding the treatment of policyholders and generates a separate market conduct examination report. A market conduct examination was performed concurrently with the financial examination, covering the period of January 1, 2006, to December 31, 2006. The official examination report is still pending.

REINSURANCE

Assumed

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

Ceded

The Facility is responsible for the equitable distribution of risks among all Missouri licensed property insurers. This is accomplished by the creation of the "Joint Reinsurance Association" formed under Section 379.835 RSMo (Joint reinsurance association). The "Joint Reinsurance Association" consists of all Missouri licensed property insurers. The Facility cedes 100% of business written to the "Joint Reinsurance Association." Assessments or distributions are made as necessary to cover losses or return profits of the Facility to the member insurers.

Assessments/distributions are made to insurers based on each insurer's proportion of premiums written as it bears to the aggregate of all premiums written in the state of Missouri. During the period under examination, assessments were made for policy year 2005 and to close policy years 2003 and 2004.

A historical summary of assessments and distributions made for habitational and commercial business follows:

Year	Assessment / (Distribution)	
	<u>Habitational</u>	<u>Commercial</u>
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	<u>2,064,415</u>	<u>(164,783)</u>
Total	\$ 19,046,417	\$ (4,490,615)

ACCOUNTS AND RECORDS

General

The Facility prepares its Annual Statement as if it retained all business written. In November 1973, the Department of Insurance, Financial Institutions and Professional Registration 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, 2005, audit were reviewed and utilized during the course of this examination when deemed appropriate. The 2006 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, 2006, 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

	Ledger and Non- Ledger Assets	Assets Not Admitted	Net Admitted Assets
Cash and short term investments	\$ 391,057		\$ 391,057
Uncollected premiums	62,463		62,463
Deferred premium not yet due	179,468		179,468
Electronic data processing equipment	12,676		12,676
Other nonadmitted assets	266,870	266,870	-
Assessment receivable	446,128		446,128
Total Assets	\$ 1,358,662	\$ 266,870	\$ 1,091,792

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 317,886
Loss adjustment expenses	63,162
Commissions payable	52,252
Other expenses	27,511
Taxes, licenses and fees due or accrued	12,949
Unearned premium	1,573,940
Funds withheld by company for others	240,003
Accumulated post retirement benefits	564,860
Accrued pension benefits	379,940
Total Liabilities	\$ 3,232,503
Unassigned funds (surplus)	(2,140,711)
Total Capital and Surplus	\$ (2,140,711)
Total Liabilities and Capital and Surplus	\$ 1,091,792

STATEMENT OF INCOME

Premiums earned		\$ 3,345,703
Losses incurred	(3,689,620)	
Loss expenses incurred	(600,598)	
Other underwriting expenses incurred	<u>(1,405,090)</u>	
Total underwriting deductions		<u>(5,695,308)</u>
Net Underwriting Gain (Loss)		\$ (2,349,605)
Net investment income earned	27,506	
Other miscellaneous income	<u>20,511</u>	
Total investment and other income		<u>48,017</u>
Net income		<u>\$ (2,301,588)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year		\$ (1,966,717)
Net income	(2,301,588)	
Change in nonadmitted assets	72,069	
Net assessment/distribution	1,899,632	
Net change in pension plan	<u>155,894</u>	
Change in surplus as regards policyholders		<u>(173,993)</u>
Surplus as regards policyholders, December 31, 2006		<u>\$ (2,140,710)</u>

EXAMINATION CHANGES

None.

NOTES TO FINANCIAL STATEMENTS

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

