

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

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


**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, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the 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, association history, management and control, insolvencies, assessments and refunds, fidelity bond and other insurance, employee benefits, accounts and records, financial statements, comments on financial statement items, examination changes and general comments and/or recommendations.

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, 2016 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) 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 28<sup>th</sup> day of February, 2018.



  
Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration



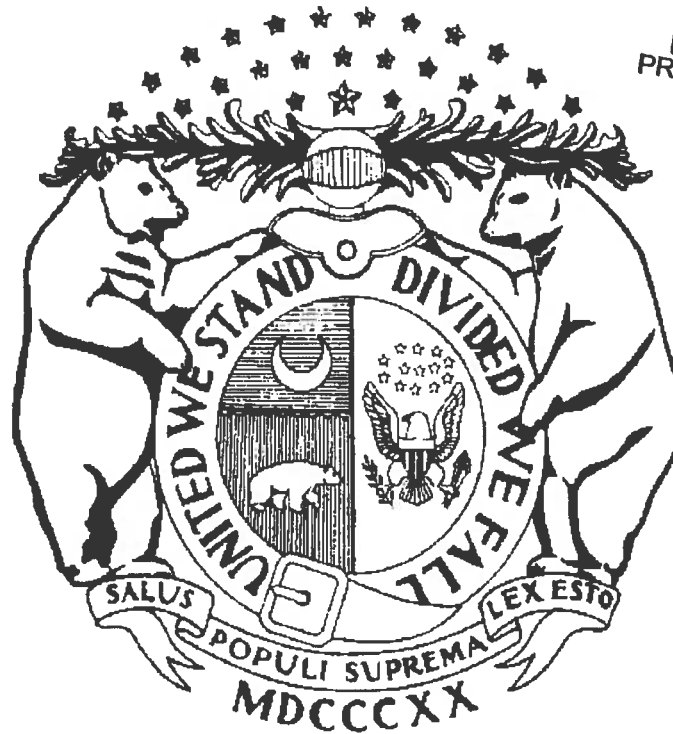
**REPORT OF THE  
FINANCIAL EXAMINATION OF  
MISSOURI PROPERTY AND CASUALTY  
INSURANCE GUARANTY ASSOCIATION**

**AS OF  
DECEMBER 31, 2016**

**FILED**

**MAR 12 2018**

**DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION**



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

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Jefferson City, Missouri  
December 14, 2017

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope 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 2210 Missouri Boulevard, Jefferson City, Missouri, 65109, telephone number (573) 634-8455. The examination began on August 29, 2017, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a single-state examination of the Association. The prior full-scope financial examination of MPCIGA covered the period of January 1, 2007, through December 31, 2011. The current full-scope financial examination covers the period of January 1, 2012, through December 31, 2016. The examination also included the material transactions and/or events occurring subsequent to December 31, 2016.

### **Procedures**

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (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 Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Association and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association 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 this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Association's financial statements.

This examination report includes significant findings of fact and general information about the Association 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 Association.

### **Reliance Upon Others**

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, 2016 through December 31, 2016. 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 findings, or material changes to the financial statements noted during the examination.

## 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 workers’ compensation) issued by an insolvent insurer shall be paid up to the policy limit, not to exceed a maximum of \$300,000 per claim. Workers’ 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, 2016, there were 917 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, annuity, accident and health, title, fidelity and surety bonds, disability, credit, mortgage and financial guaranty, ocean marine, warranty and service contracts, 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.

**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 (Board of directors, selection, terms-powers and duties) requires that the number of directors shall consist of not less than seven nor more than nine members. 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 DIFP. The members of the Board of Directors elected and serving, as of December 31, 2016, were as follows

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Ron Borders	President, MAMIC Mutual Insurance Company
Charles H. Burhan	Assistant Vice President, Liberty Mutual Insurance Company
D. Scott Forrest	Vice President of Claims, Cornerstone National Insurance Company
David A. Monaghan	Government Affairs Counsel, American Family Mutual Insurance Co.
James Owen	President & CEO, Missouri Employers Mutual
Steve Schone	Vice President, Automobile Club Inter-Insurance Exchange
Michael P. Voiles	Manager, Farm Bureau Town & Country Insurance Co. of Missouri
Brian Waller	Vice President of Public Affairs, Shelter Insurance Companies
Debra G. 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 when a vacancy occurs on the Board of Directors.



**Officers**

The officers elected and serving as of December 31, 2016, were as follows:

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

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

**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. A revision to the Plan of Operation was made effective September 24, 2013. This revision changed the number of required directors from seven members, to not less than seven members and not more than nine members. This revision was made to correspond with a 2013 revision to the aforementioned statute regarding the required number of Board of Director members.

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.

## INSOLVENCIES

As of December 31, 2016, the Association administered 49 open insolvencies, which included 25 insolvencies with no open claims. One significant insolvency occurred during the examination period that represented a material amount of claims for Missouri residents. Lumbermens Mutual Casualty Company was determined insolvent in 2013, and the Association's estimate of policy benefits was \$4.7 million for Missouri residents as of December 31, 2016. 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>
Frontier Insurance Company	New York	11/16/2012
American Manufacturers Insurance Company	Illinois	5/10/2013
American Motorist Insurance Company	Illinois	5/10/2013
Lumbermens Mutual Casualty Company	Illinois	5/10/2013
Ullico Casualty Company	Delaware	5/30/2013
Pride National Insurance Company	Oklahoma	7/10/2013
Gramercy Insurance Company	Texas	8/26/2013
Professional Liability Insurance Company of America	New York	12/27/2013
Freestone Insurance Companies	Delaware	8/15/2014
Red Rock Insurance Company	Oklahoma	8/21/2015
Lincoln General Insurance Company	Pennsylvania	11/5/2015
Affirmative Insurance Company	Illinois	3/24/2016
Lumbermens Underwriting Alliance	Missouri	5/23/2016

### Closed Insolvencies:

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Closed Date</u>
Protective National Insurance Company of Omaha	Nebraska	6/20/2012
American Eagle Insurance Company	Texas	6/29/2012
Acceleration National Insurance Company	Ohio	11/21/2012
Transit Casualty Company	Missouri	12/20/2012
First Southern Insurance Company	Florida	12/20/2012
Millers Insurance Company	Texas	1/14/2013
Far West Insurance Company	Nebraska	3/4/2013
Coronet Insurance Company	Illinois	12/9/2013
American Growers Insurance Company	Nebraska	9/24/2014

## **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 2% of the net direct written premium of each member insurer. Per Section 375.775 RSMo as previously defined, 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. There were no refunds issued to the State of Missouri during the examination period.

## **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, 2016, MPCIGA and MLHIGA jointly employed seven 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 expense reimbursement, life insurance, disability insurance and paid time off. Employees are also eligible to participate in Association-sponsored 401(k) and 457 retirement plans. The Association makes contributions to the 401(k) plan equal to 8% of employee's annual salary, while the 457 plan is employee funded through optional contributions. 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, 2016, was issued by Russel L. Sutter, FCAS, MAAA, of Willis Towers Watson, in St. Louis, Missouri. Willis Towers Watson performed the actuarial review of reserves for each year of the examination period.

In 2014, management discovered that a reserve for unallocated loss adjustment expenses (ULAE) liability had not been reported in previous years as required by GAAP standards. ULAE generally pertains to costs associated with determining coverage, adjusting, and paying claims which are not directly associated with a particular claim, and consist of expenses such as claims staff salaries, utilities and other administrative expenses. To correct this issue, a prior period adjustment was made in the 2014 financial statements to report a ULAE reserve liability of \$11.7 million as of December 31, 2013.

## FINANCIAL STATEMENTS

The following financial statements, present the financial condition of the Association for the period ending December 31, 2016. 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, 2016**

Cash and Cash Equivalents	\$ 2,258,302
Investments	95,044,875
Investment Interest Receivable	214,254
Unbilled Assessments	32,946,235
Other Assets	<u>52,718</u>
<b>TOTAL ASSETS</b>	<b><u>\$130,516,384</u></b>

**Liabilities and Net Assets**  
**as of December 31, 2016**

Accounts Payable	\$ 47,498
Due to Missouri L&H Association	44,438
Early Access Liability	56,053,766
Reserves for Losses and LAE	<u>50,290,057</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$106,435,759</u></b>
Board Designated Net Assets	15,000,000
Undesignated Net Assets	<u>9,080,625</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 24,080,625</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$130,516,384</u></b>



**Statement of Income**  
**For the Year Ended December 31, 2016**

Liquidation Distributions	\$1,400,520
Net Investment Return	<u>846,759</u>
<b>Total Support and Revenues</b>	<b><u>\$2,247,279</u></b>
Losses and LAE Expenses	\$1,719,025
Increase in Loss and LAE Reserves	651,907
General and Administrative Expenses	825,469
Miscellaneous Expenses	<u>5,458</u>
<b>Total Expenses</b>	<b><u>\$3,201,859</u></b>
<b>Change in Unrestricted Net Assets</b>	<b><u>\$ (954,580)</u></b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**EXAMINATION CHANGES**

None.

**GENERAL COMMENTS AND/OR RECOMMENDATIONS**

None.

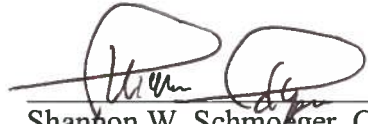
**ACKNOWLEDGMENT**

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. In addition to the undersigned, Emily Pennington, AFE and Brian Hammann, CPA, examiners for the DIFP, participated in this examination.

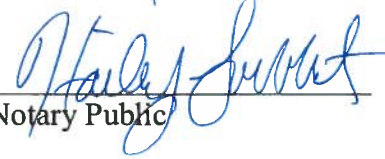
**VERIFICATION**

State of Missouri )  
County of Cole )

I, Shannon W. Schmoeger, 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.

  
Shannon W. Schmoeger, CFE, ARe  
Examiner-In-Charge  
DIFP

Sworn to and subscribed before me this 20<sup>th</sup> day of January, 2018.

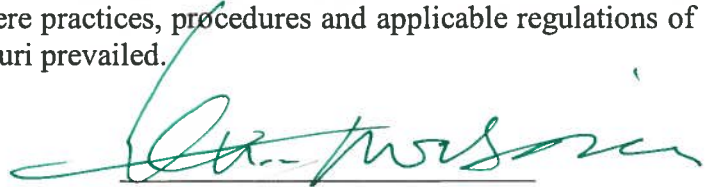
My commission expires: March 30, 2019   
Notary Public



HAILEY LUEBBERT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Osage County  
My Commission Expires: March 30, 2019  
Commission Number: 15634366

**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, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.



Levi Nwasoria, CFE, CPA  
Audit Manager  
DIFP