

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

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, 2021, 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 Commerce and Insurance 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 finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

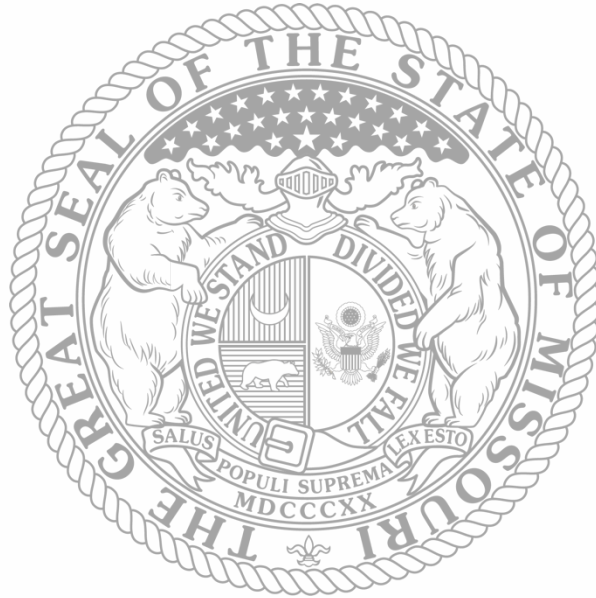
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Property and Casualty Insurance Guaranty Association as of December 31, 2021 be and is hereby ADOPTED as filed and for Missouri Property and Casualty Insurance Guaranty Association to take 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 14th day of March, 2023.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

MISSOURI PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

AS OF
DECEMBER 31, 2021

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED.....	1
PROCEDURES.....	1
SUMMARY OF SIGNIFICANT FINDINGS	1
COMPANY HISTORY	1
GENERAL.....	1
MEMBERSHIP	2
AFFILIATIONS.....	2
MANAGEMENT AND CONTROL	2
BOARD OF DIRECTORS	2
OFFICERS.....	3
COMMITTEES	4
CORPORATE RECORDS.....	4
INSOLVENCIES	4
ASSESSMENTS AND RECOVERIES	4
CLAIMS AND RESERVES	5
NET ASSETS	6
ACCOUNTS AND RECORDS	6
INDEPENDENT AUDITOR	6
EXTERNAL ACTUARY	7
FINANCIAL STATEMENTS	7
ASSETS.....	8
LIABILITIES, CAPITAL AND SURPLUS	8
STATEMENT OF ACTIVITIES	9

COMMENTS ON FINANCIAL STATEMENT ITEMS	10
FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION	10
SUMMARY OF RECOMMENDATIONS.....	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT	11
VERIFICATION.....	11
SUPERVISION	12

Jefferson City, MO
January 19, 2023

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
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 such, as MPCIGA, or as the Association. Its administrative office is located at 2210 Missouri Boulevard, Jefferson City, Missouri, 65109. The fieldwork for this examination began on June 1, 2022, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of MPCIGA. The last examination of the Association by the Department covered the period of January 1, 2011 through December 31, 2016. The current examination covers the period of January 1, 2017 through December 31, 2021, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

This examination was conducted using the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri. Standard examination procedures were modified as necessary under the circumstances.

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.

COMPANY 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 RSMo (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, 2021, there were 962 companies licensed to sell property and casualty coverage in Missouri. Pursuant to Section 375.772 RSMo, all insurers with the 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 between MPCIGA and MLHIGA specifies the manner to allocate joint expenses between the two entities. All joint expenses are initially paid 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.

The original Agreement with MLHIGA, dated May 8, 2001, was replaced by a new Agreement, dated June 29, 2020, in order to add a new section that establishes a Joint Administration Committee. The Committee is comprised of the officers of MPCIGA and MLHIGA. The Committee is required to meet at least once per year to review and approve annual budgets, expense allocations, and compensation.

MANAGEMENT AND CONTROL

Board of Directors

The oversight of the Association's operations 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 Department.

Member insurers that serve on the Board of Directors are elected at the annual membership meeting. An elected member insurer designates an individual to serve as the representative on the Board of Directors. The elected members of the Board of Directors and the representatives serving, as of December 31, 2021, were as follows:

<u>Member Insurer</u>	<u>Member Representative and Title</u>
MAMIC Mutual Insurance Company	Vacant*
Arch Insurance Company	Veronica Chang-Peshoff Vice President and General Counsel
Cameron Mutual Insurance Company	Stephanie Dent Litigation Manager
Medical Liability Alliance	Dana Frese Chief Executive Officer
State Farm Mutual Auto Insurance Company	Michael Lane Associate General Counsel
American Family Mutual Insurance Company	David Monaghan Government Affairs Counsel
Missouri Employers Mutual Insurance Company	James Owen President and Chief Executive Officer
Farm Bureau Town & Country Insurance Company of Missouri	Nick Schollmeyer Manager
Shelter Mutual Insurance Company	Brian Waller Vice President of Public Affairs

*Chris Kesphohl, President and General Manager appointed in March 2022

Officers

The officers elected and serving, as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
David Monaghan	Chair
James Owen	Vice Chair
Dana Frese	Secretary and Treasurer

The Association also employs an Executive Director, Tamara Kopp, who reports directly to the Board of Directors. This non-elected position is responsible for the planning and direction of all aspects of the Association's operational policies, objectives, initiatives, and statutory mandates. Tamara Kopp also serves in the Managing Secretary position, as appointed by Board resolution in September 2019. The Managing Secretary has the authority to negotiate and execute contracts on behalf of the Association.

Committees

The Plan of Operation states that a Nominating Committee will be staffed to recommend nominees to fill any vacancies that exist on the Board of Directors. The officers of the Association also serve on a Joint Administration Committee with the officers of the MLHIGA.

Corporate Records

Section 375.776 RSMo (Board of directors, selection, terms-powers and duties) requires the Association to maintain a Plan of Operation that establishes various procedures for the Board of Directors, record keeping, and other operational matters. A review was made of the Plan of Operation and no changes were made during the examination period.

The minutes of the Board of Directors' and membership meetings were reviewed for proper approval of corporate transactions.

INSOLVENCIES

As of December 31, 2021, the Association administered 49 open insolvencies, which included 28 insolvencies with no open claims. Below is a listing of new insolvencies that occurred during the examination period:

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Liquidation Date</u>
Highlands Insurance Company	Texas	10/29/2021
Western General Insurance Company	California	08/05/2021
Bedivere Insurance Company	Pennsylvania	03/11/2021
American Service Insurance Company	Illinois	08/11/2020
Gateway Insurance Company	Illinois	06/10/2020
Physicians Standard Insurance Company	Kansas	12/01/2019
Capson Physicians Insurance Company	Texas	06/28/2019
Northwestern National Insurance Company	Wisconsin	05/01/2019
Access Insurance Company	Texas	03/13/2018
Guarantee Insurance Company	Florida	11/27/2017
Millers First Insurance Company	Illinois	08/30/2017
Galen Insurance Company	Missouri	05/31/2017
Castlepoint National Insurance Company	California	04/01/2017

ASSESSMENTS AND RECOVERIES

Assessments are levied at the discretion of the Board of Directors whenever funds are needed to pay claims and expenses. 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, limited to 2% of the member's net direct written premium. Assessments require the approval of a majority of the Board of Directors. There were no assessments of member insurers during the examination period.

The main source of revenue during the examination period was liquidation distributions from receivers of insolvent insurers. A receiver may distribute funds to state insurance guaranty associations in the beginning of an insolvency to pay claims and avoid the need for an assessment. However, such distributions to a guaranty association may be subject to an early access agreement, which allows for a possible “clawback” of the funds in the future. Early access distributions are not reported as liquidation distributions until such time that the receiver releases the funds from the early access agreement. Other distributions from receivers are not subject to an early access agreement and are immediately reported as liquidation distributions.

Liquidation distributions received or earned in the examination period totaled \$61.6 million, which accounted for 81% of all revenues. The largest liquidation distributions were \$40.8 million for Reliance Insurance Company and \$16.0 million for Legion Insurance Company. Most of the funds for these distributions were received prior to 2017, but were released from early access agreements during the examination period and were therefore recognized as income in the current examination period. Reliance Insurance Company and Legion Insurance Company were both Pennsylvania domiciled insurers with insolvencies that occurred in 2001 and 2003, respectively.

CLAIMS AND RESERVES

Below is a summary of the insolvencies with the largest claim payments during the examination period. This summary includes both losses and allocated loss adjustment expenses (LAE) paid by the Association for Missouri policyholders.

<u>Insolvent Insurer (Year of Insolvency)</u>	<u>Claims Payments</u>
Guarantee Insurance Company (2017)	\$ 6,957,585
Physicians Standard Insurance Company (2019)	3,060,384
Lumbermens Mutual Casualty Company (2013)	2,326,510
Legion Insurance Company (2003)	2,158,931
Reliance Insurance Company (2001)	1,715,089
All Other Combined	7,162,826
TOTAL	<u>\$ 23,381,325</u>

The Association records loss and LAE reserves with three components: (1) case reserves identified for reported and active claims, (2) reserves for incurred but not reported (IBNR) claims, as determined by an external actuary, and (3) a reserve for LAE not attributable to any specific claim, such as general and administrative costs, also determined by an external actuary.

Claims for workers’ compensation liability policies normally represent most of the Association’s reserves because it can take many years or decades for a claim to be fully resolved. The total reserves, as of December 31, 2021, for the workers’ compensation line of business were \$48.7 million, which represented 89% of the combined reserves for case reserves and IBNR.

Below is a summary of the insolvencies with the largest case reserves for active claims, as of December 31, 2021:

<u>Insolvent Insurer (Year of Insolvency)</u>	<u>Reserves at 12/31/2021</u>
Bedivere Insurance Company (2021)	\$ 8,545,091
Guarantee Insurance Company (2017)	7,354,428
Reliance Insurance Company (2001)	5,116,819
Legion Insurance Company (2003)	4,844,631
Lumbermens Mutual Casualty Company (2013)	3,539,295
All Other Combined	8,253,373
TOTAL	\$ 37,653,637

NET ASSETS

The net assets reported in the Association's financial statements represent the surplus of assets in excess of liabilities. Below is a summary of the yearly changes in net assets from the prior examination through the current examination period.

<u>As of Date</u>	<u>Net Assets/Surplus</u>	<u>Increase (Decrease)</u>
December 31, 2016	\$ 24,080,625	\$ --
December 31, 2017	36,973,848	12,893,223
December 31, 2018	27,414,278	(9,559,570)
December 31, 2019	48,778,079	21,363,801
December 31, 2020	53,953,506	5,175,427
December 31, 2021	54,176,091	222,585

The large increases in net assets for 2017 and 2019 were due to large liquidation distributions recorded for the Reliance Insurance Company and Legion Insurance Company, respectively. The large decrease in net assets in 2018 was primarily driven by an increase to the loss and LAE reserves for Guarantee Insurance Company after a review of the claim files.

Pursuant to Section 375.775 RSMo, refunds may be issued to member insurers 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.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm Williams Keepers, LLC, located in Jefferson City, Missouri, performed an audit of the Association's financial statements for all years of the examination period. The CPA workpapers for the audit of the December 31, 2021, financial statements were reviewed and used in the course of the examination as deemed appropriate.

External Actuary

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Russel L. Sutter, FCAS, MAAA, for all years in the examination period. Mr. Sutter is employed by Willis Towers Watson US, LLC, located in St. Louis, Missouri.

FINANCIAL STATEMENTS

The following financial statements are based on the financial statements filed by MPCIGA with the Missouri Department of Commerce and Insurance and present the financial condition of the Association for the period ending December 31, 2021. The accompanying "Comments on Financial Statement Items" section reflects any examination adjustments to the amounts reported and should be considered an integral part of the financial statements.

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 for each individual financial statement item.

ASSETS

As of December 31, 2021

Cash and Cash Equivalents	\$	8,271,669
Investments		91,880,235
Investment Interest Receivable		149,124
Unbilled Assessments		41,600,000
Computer Software and Equipment		49,165
TOTAL ASSETS	\$	141,950,193

LIABILITIES, CAPITAL AND SURPLUS

As of December 31, 2021

Reserves for Losses and LAE	\$	67,813,418
Early Access Liability		19,871,139
Accounts Payable		46,817
Due to MLHIGA		42,728
TOTAL LIABILITIES	\$	87,774,102
NET ASSETS (SURPLUS)	\$	54,176,091
TOTAL LIABILITIES AND NET ASSETS	\$	141,950,193

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

Liquidation Distributions	\$	2,304,610
Net Investment Return		(1,579,350)
Change in Unbilled Assessments		8,600,000
Total Support and Revenues	\$	9,325,260
Loss and Loss Adjustment Expenses	\$	6,379,134
Change in Reserves for Losses and Loss Adjustment Expenses		1,776,855
General and Administrative Expenses		904,066
Miscellaneous Expenses		42,620
Total Expenses	\$	9,102,675
CHANGE IN NET ASSETS	\$	222,585

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

The Association's net assets (surplus) decreased from \$54.2 million, as of December 31, 2021, to \$44.5 million, as of September 30, 2022, a decrease of \$9.7 million or 18%. The decrease in surplus was due mostly to a \$9.0 million unrealized loss on the fair value of the bond portfolio. The maturity dates for most of the bonds held at September 30, 2022 occur in the second half of 2025 and subsequent years. The Association has a risk of significant realized losses if one or more long-term bonds in the portfolio have to be sold in 2023, 2024 or 2025 to meet cash flow needs for claim payments and other expenses. However, the Association indicated it has sufficient cash, short-term investments, and a line of credit to avoid the need to liquidate any long-term bonds before maturity.

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Association regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Association and will take necessary action if a solvency concern arises.

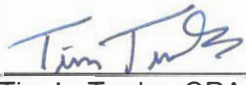
ACKNOWLEDGMENT

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

VERIFICATION

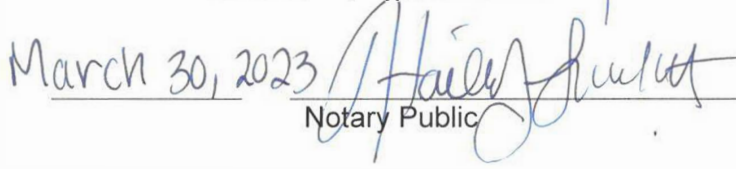
State of Missouri)
) ss
County of Cole)

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 L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 22nd day of February, 2023.

My commission expires: March 30, 2023 

Notary Public


HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Cole County
Commission #15634368



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 guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri has been confirmed.



Sara McNeely, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance