



GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner of Insurance

STATE OF MISSISSIPPI
Mississippi Insurance Department

501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079
(601) 359-3569
<http://www.doi.state.ms.us>

March 8, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. John Weeks, Executive Director
Mississippi Insurance Guaranty Association
713 South Pear Orchard Road, Suite 401
Ridgeland, MS 39157

RE: Report of Examination as of December 31, 2005

Dear Mr. Weeks:

In accordance with Miss. Code Ann. §§ 83-23-127 and 83-5-201 et seq. (Rev. 1999), an examination of the Mississippi Insurance Guaranty Association has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE
COMMISSIONER OF INSURANCE

BY

Handwritten signature of J. Mark Haire in cursive script.

J. Mark Haire
Special Assistant Attorney General

GD/JMH/bs
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF MISSISSIPPI
INSURANCE GUARANTY ASSOCIATION**

CAUSE NO. 06-5482

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. §§ 83-23-127 and 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. §§ 83-23-127 and 83-5-201 et seq. (Rev. 1999).

II.

That the Mississippi Insurance Guaranty Association was established by the Mississippi Legislature in April of 1970 to provide a mechanism for the payment of covered claims under certain insurance policies, to avoid excessive delay in payment, to avoid financial loss to claimants or

policyholders because of the insolvency of a member insurer, and to provide a process for the Association to assess the cost of such protection among insurers.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. §§ 83-23-127 and 83-5-201 et seq. (Rev. 1999), called for an examination of the Mississippi Insurance Guaranty Association and appointed Brian Spong, Examiner-In-Charge, to conduct said examination.

IV.

That on or about August 1, 2006, the draft Report of Examination concerning the Mississippi Insurance Guaranty Association for the period of January 1, 2005 through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Brian Spong.

V.

That on or about October 26, 2006, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's response on November 14, 2006, and in response thereto, no revisions to the draft report were made.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with

modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, all relevant examiner work papers, and any rebuttal, that the Report of Examination of the Mississippi Insurance Guaranty Association, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

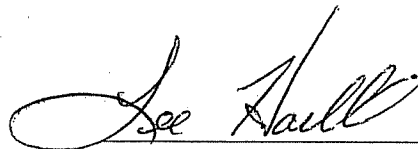
IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, the Mississippi Insurance Guaranty Association shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that the Mississippi Insurance Guaranty Association take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

SO ORDERED, this the 8th day of March 2007.

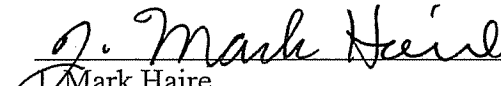


LEE HARRELL
DEPUTY COMMISSIONER OF INSURANCE

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 8th day of March 2007, to:

**Mr. John Weeks, Executive Director
Mississippi Insurance Guaranty Association
713 South Pear Orchard Road, Suite 401
Ridgeland, MS 39157**



J. Mark Haire
Special Assistant Attorney General

J. Mark Haire
Special Assistant Attorney General
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 2065



Mississippi Insurance Department

Report of Examination

of

Mississippi Insurance Guaranty Association

**713 South Pear Orchard Road, Suite 401
Ridgeland, Mississippi 39157**

As of December 31, 2005

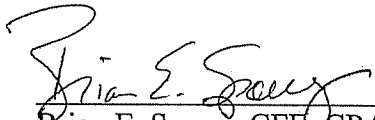
**MISSISSIPPI INSURANCE GUARANTY ASSOCIATION
EXAMINATION REPORT TABLE OF CONTENTS
DECEMBER 31, 2005**

Examiner Affidavit	1
Salutation	2
Scope of Examination	2
History of the Association	3
Members of the Association	3
Management of the Association.....	3
Board Minutes.....	5
Fidelity Coverage and Immunity	5
Retirement Plan and Other Benefits.....	5
Accounts and Records.....	5
Financial Statements:	
Introduction.....	6
Statement of Financial Position.....	7
Statement of Activities	8
Statement of Cash Flows.....	9
Reconciliation of Examination Adjustments.....	10
Comments and Recommendations.....	11
Acknowledgement	12

EXAMINER'S AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Mississippi Insurance Guaranty Association dated July 18, 2006, and made as of December 31, 2005, on behalf of the Mississippi Insurance Department. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

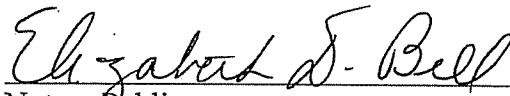
Further Affiant sayeth not.



Brian E. Spong, CFE, CPA
Examiner-In-Charge
State of Mississippi

Subscribed and sworn before me by Brian Spong on December 7, 2006

(SEAL)



Notary Public

My commission expires _____

**MISSISSIPPI STATEWIDE NOTARY PUBLIC
MY COMMISSION EXPIRES NOV 23, 2010
BONDED THRU STEGALL NOTARY SERVICE**



GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner of Insurance

STATE OF MISSISSIPPI
Mississippi Insurance Department

501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079
(601) 359-3569
<http://www.doi.state.ms.us>

July 18, 2006

Honorable George Dale
Commissioner of Insurance
State Fire Marshal
Mississippi Insurance Department
501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079

Dear Commissioner Dale:

Pursuant to your instructions and authorization, an examination as of December 31, 2005 was conducted of the operations and financial position of:

MISSISSIPPI INSURANCE GUARANTY ASSOCIATION
713 South Pear Orchard Road, Suite 401
Ridgeland, Mississippi 39157

The examination was performed at Mississippi Insurance Guaranty Association's (hereinafter referred to as the "Association") administrative office located in Ridgeland, Mississippi, and was conducted in accordance with Miss. Code Ann. §83-23-127, and the report of examination is herewith submitted for your review.

SCOPE OF EXAMINATION

The examination of the Association included a review of its operations and compliance with applicable laws, as well as the review of its financial statements. The Association is audited annually by a local accounting firm and substantial reliance was placed on the work performed by these independent auditors, after their work was reviewed, tested and/or reperfomed without exception being noted by the examiner.

HISTORY OF THE ASSOCIATION

The Association is a nonprofit, unincorporated legal entity that was created by the Mississippi State Legislature in April of 1970 to provide a mechanism for the payment of covered claims under certain insurance policies, to avoid excessive delay in payment, and to avoid financial loss to claimants or policyholders because of the insolvency of a member insurer, and to provide a process for the Association to assess the cost of such protection among insurers. The maximum amount for all covered claims is \$300,000 per claimant, except for workers' compensation, which is not limited. There is a \$50 deductible applicable to claims that are not for workers' compensation and benefits paid by the Association can never exceed the benefits of the applicable insurance policy.

MEMBERS OF THE ASSOCIATION

The property and casualty insurers licensed to transact direct business in the State of Mississippi are required to be members of the Association, where the Association, through its ability to assess its members, provides for the payment of covered claims owed by insolvent member insurers. The assessment of each member insurer, if approved by the Board of Directors and the Commissioner of Insurance for the State of Mississippi, is limited for any year to one percent of that member's net direct written premiums for the calendar year preceding the date of the assessment. Member insurers were assessed the maximum amount in year 2005, which approximated \$31,160,000. Any excess recoveries obtained from a Receiver or Liquidator of an insolvent insurer are credited or refunded to the member insurers in proportion to the contributions of each member insurer to the insolvency.

MANAGEMENT OF THE ASSOCIATION

In accordance with the provisions of Miss. Code Ann. §83-23-113, the Board of Directors ("Board") must consist of not less than five and no more than nine persons who are elected by a majority vote of the member insurers, subject to the approval of the Commissioner of Insurance for the State of Mississippi. The voting members of the Board, along with their member insurance company as of December 31, 2005, were as follows:

Mr. Jack C. Williams, Jr.

Southern Farm Bureau Casualty Insurance Companies
Chairman

Mr. Brad Little

The St. Paul Travelers Insurance Companies
Vice-Chairman

Mr. William Penna

State Farm Insurance Companies
Secretary & Treasurer

Mr. Jeffrey Carver
Union Standard Insurance Group

Mr. Joe Cotney
Alfa Insurance Company

Mr. Larry Criswell
General Casualty Insurance Company

Mr. Mike Ely
Allstate Insurance Company

Mr. Kent T. Higdon
USA Insurance Company

Mr. Billy Roberts
AmFed National Insurance Company

The claim committee, as displayed below, reviews and approves all settlements, per claimant, exceeding \$100,000:

Mr. Terry Blalock
State Farm Insurance Companies

Mr. Nelson Benson
The St. Paul Companies

Mr. Ralph Stillions
AmFed National Insurance Company

Mr. Robert Moulds
Nationwide Insurance Company

Mr. Matt Wilson
The St. Paul Companies

The management of the day-to-day operations of the Association was performed by the following persons:

Mr. John Weeks
Executive Director

Mrs. Faye Barron
Administrator

Mr. Arthur Russell
Claims Manager

BOARD MINUTES

The minutes of the meetings of the Board were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation.

FIDELITY COVERAGE AND IMMUNITY

The Association had employee dishonesty coverage, limited to \$1 million and containing a \$15,000 deductible; and forgery alterations coverage limited to \$750,000 and containing a \$10,000 deductible. Further, Miss. Code Ann. §83-23-133 provides that there shall be no liability on the part of and no cause of action of any nature shall arise against any member insurer, the Association, its agents or employees, the Board, or the Commissioner of Insurance or his representatives for any good faith, affirmative action taken by them in the performance of their powers and duties under this article.

RETIREMENT PLAN AND OTHER BENEFITS

The Association maintained a defined benefit pension plan and a defined contribution plan for its employees, as well as provided certain insurance coverage and paid leave for vacation and illness. Funding of the defined benefit pension plan during 2005 totaled \$73,691 and benefits paid totaled \$8,974, while contributions to the defined contribution plan totaled \$36,897.

ACCOUNTS & RECORDS

The Association utilizes Sage BusinessWorks for the processing of its accounting transactions, which were reviewed and reconciled during the examination without significant exception.

FINANCIAL STATEMENTS

The following financial statements consist of a Statement of Financial Position for year ended December 31, 2005, a Statement of Activities for year ended December 31, 2005, a Statement of Cash Flows for year ended December 31, 2005, and a Reconciliation of Examination Adjustments for year ended December 31, 2005.

**MISSISSIPPI INSURANCE GUARANTY ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005**

Assets

Cash and Cash Equivalents	\$7,685,298
Assessments Receivable	232,897
Accrued Interest Receivable	1,049,094
Fixed Income Investments	99,554,243
Fixed Assets	<u>75,822</u>
Total Assets	<u>\$108,597,354</u>

Liabilities

Estimated Claims and Adjustment Expenses	<u>\$120,968,274</u>
Total Liabilities	<u>120,968,274</u>

Net Deficit

Unrestricted	<u>(12,370,920)</u>
Total Liabilities and Net Deficit	<u>\$108,597,354</u>

**MISSISSIPPI INSURANCE GUARANTY ASSOCIATION
STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2005**

REVENUE:

Assessments	\$31,159,853
Recoveries	9,059,605
Interest and Dividends	<u>2,665,044</u>
Total Revenue	<u>42,884,502</u>

EXPENSES:

Unearned Premiums	727,227
Claim Losses	15,698,592
Legal and Adjuster Fees	5,587,001
Decrease in Estimated Claims and Adjustment Expenses	(20,516,093)
Administrative	2,087,459
Depreciation	13,032
Realized Losses on Investments	10,351
Unrealized Losses on Investments	1,373,521
Investment Fees	<u>177,969</u>
Total Expenses	<u>5,159,059</u>

DECREASE IN NET DEFICIT 37,725,443

NET DEFICIT, BEGINNING OF YEAR (50,096,363)

NET DEFICIT, END OF YEAR (\$12,370,920)

**MISSISSIPPI INSURANCE GUARANTY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in Net Deficit	\$37,725,443
Depreciation	13,032
Investment Fees	177,969
Realized Losses on Investments	10,351
Unrealized Losses on Investments	1,373,521
Interest and Dividends Reinvested	(2,975,743)
Net Amortization of Premiums or Accretion of Discounts on Investments	32,340
Increase in Assessments Receivable	(187,918)
Decrease in Accrued Interest Receivable	172,159
Decrease in Estimated Claims and Adjustment Expenses	<u>(20,516,093)</u>
 Net Cash Provided By Operating Activities	 15,825,061
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Maturities of Investments	20,000,000
Proceeds from Sale of Investments	2,072,069
Purchase of Investments	(29,683,241)
Decrease in Book Overdraft	<u>(1,208,615)</u>
 Net Cash Used In Investing Activities	 <u>(8,819,787)</u>
 Net Increase in Cash and Cash Equivalents	 7,005,274
 Cash and Cash Equivalents, Beginning of year	 680,024
 Cash and Cash Equivalents, End of year	 <u>\$7,685,298</u>

**MISSISSIPPI INSURANCE GUARANTY ASSOCIATION
RECONCILIATION OF EXAMINATION ADJUSTMENTS
FOR YEAR ENDED DECEMBER 31, 2005**

There were no material examination adjustments made to the amounts reported by the Association and its auditors for the year ended December 31, 2005.

COMMENTS AND RECOMMENDATIONS

Disaster Recovery Plan: The Association did not have a written data processing disaster recovery plan in compliance with the criteria established in Part 1, Section IV, Subsection B of the NAIC Financial Condition Examinations Handbook. It is recommended that the Association develop and implement a written data processing disaster recovery plan in accordance with Part 1, Section IV, Subsection B of the NAIC Financial Condition Examiners Handbook.

Investment Custodial Agreement: The Association's custodial agreement was not in compliance with the NAIC Financial Condition Examiners Handbook. It is recommended that the Association amend its agreement with its investment custodian to comply with the requirements found within the NAIC Financial Condition Examiners Handbook.

ACKNOWLEDGEMENT

The examiners representing the Mississippi Insurance Department who participated in the examination are listed below.

Manager:	Mr. Joseph R. May, CFE, CPA, CMA, CIE
Examiner-In-Charge:	Mr. Brian E. Spong, CFE, CPA
Automation Examiner:	Mr. J. Scott Joyner, CISA, CGAP

Respectfully,



Brian E. Spong, CFE, CPA
Mississippi Insurance Department
Examiner-In-Charge