



MISSISSIPPI INSURANCE DEPARTMENT

Report of Examination

of

Mississippi Insurance Guaranty Association

as of

December 31, 2018

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EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Mississippi,

County of Madison,

Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Mississippi Insurance Guaranty Association as of December 31, 2018.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Mississippi Insurance Guaranty Association was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

Kimberly Strong

Kimberly Strong, CPA, CFE
Examiner-in-Charge

Subscribed and sworn before me by Kimberly Strong on this 1st day of August, 20 20.

(SEAL)



Mollie H. Corulla
Notary Public

My commission expires October 29, 2021 [date].



MIKE CHANEY

Commissioner of Insurance
State Fire Marshal

MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING

JACKSON, MISSISSIPPI 39201

MAILING ADDRESS

Post Office Box 79
Jackson, MS 39205-0079

MARK HAIRE

February 21, 2020

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2018, of the affairs and financial condition of:

Mississippi Insurance Guaranty Association
713 South Pear Orchard Road, Suite 200
Ridgeland, MS 39157

This examination was commenced in accordance with Miss. Code Ann. § 83-23-127 and Miss. Code Ann. § 83-5-201 *et seq.* and was performed in Ridgeland, Mississippi, at the statutory home office of the Association. The report of examination is herewith submitted.

SCOPE OF EXAMINATION

We have performed the single-state examination of Mississippi Insurance Guaranty Association ("Association" or "MIGA"). The last exam was completed as of December 31, 2005. This examination covers the period January 1, 2014 through December 31, 2018.

This examination of the Association was a financial examination using the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("FCEH") and Mississippi statutes and regulations as guidance. The examination was not a full risk-focused examination and was limited to a review of the GAAP financial statements and certain procedures and controls of the Association.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

Finding #1: Disaster Recovery Plan: 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 NAIC *Financial Condition Examiners Handbook*.

Comments on current year: The Association implemented a written data processing disaster recovery plan in compliance with the NAIC *Financial Condition Examiners Handbook*.

Finding #2: Investment Custodial Agreement: It is recommended that the Association amend its agreement with its investment custodian to comply the requirements found within the NAIC *Financial Condition Examiners Handbook*.

Comments of current year: A permitted practice was granted by the Mississippi Insurance Department ("MID") in regard to the custodial agreement maintained by the Association. The MID deemed that agreement to be sufficient for the purposes of the Association.

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.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors (“Board”), prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Association's investment portfolio and actions of the Association's officers.

MANAGEMENT AND CONTROL

Members

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 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. 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.

No assessments were authorized and no excess recoveries were refunded to any member insurers during the period under examination.

Board of Directors

In accordance with the provisions of Miss. Code Ann. §83-23-113, management and control of the Association's business affairs was vested with the Board. The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2018, were as follows:

Name and Residence	Principal Occupation
Jeffrey Carver, Chairman Meridian, Mississippi	Berkeley Southeast Insurance Group
Mike Richardson, Vice-Chairman Ridgeland, Mississippi	AmFed National Insurance Company
Bryan Hubbard, Secretary Montgomery, Alabama	Alfa Insurance Company
Jim Rowles, Treasurer Jackson, Mississippi	Mississippi Farm Bureau Insurance
Steve Simkins Atlanta, Georgia	State Farm Insurance Companies
Tiffany Hawkins Ridgeland, Mississippi	FCCI Insurance Group

Name and Residence	Principal Occupation
Ray Waugh Wilton, Connecticut	Nationwide Insurance Company
Lisa Pierce Nashville, Tennessee	Allstate Insurance Company
Kurt Close Birmingham, Alabama	Travelers Insurance Company

In accordance with the provisions of Miss. Code Ann. §83-23-113, the Board must consist of not less than five (5) and no more than nine (9) 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.

Committees

The following directors served on the Association's Executive Committee:

Name	Title
Jeffrey Carver	Chairman
Mike Richardson	Member
Bryan Hubbard	Member
Jim Rowles	Member

The following directors served on the Association's Personnel Committee:

Name	Title
Bryan Hubbard	Chairman
Mike Richardson	Member

The following directors served on the Association's Investment Committee:

Name	Title
Tiffany Hawkins	Chairman
Jim Rowles	Member
Kurt Close	Member

The following directors served on the Association's Legislative Committee:

Name	Title
Steve Simkins	Chairman
Ray Waugh	Member
Lisa Pierce	Member

The following directors served on the Association's Claims Committee:

Name	Title
Matt Wilson	Chairman
James Swanner	Member
Lisa Watson	Member

Officers

Name	Title
Arthur Russell	Executive Director
Rhonda Powell	Administrator

Conflict of Interest

The Association had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. It was noted that the Association did not obtain written conflict of interest statements from all Board members for all years under examination. It is recommended that the Association provide the Conflict of Interest Policy to all Board members and that each member of the Board sign a Conflict of Interest Statement annually, with any noted conflicts being reviewed by the Executive Director and Chairman of the Board.

FIDELITY AND OTHER INSURANCE

The Association maintained a comprehensive insurance program. This program included commercial general liability, directors and officers liability, business auto, cybersecurity and crime policies, as deemed appropriate by the Association's management. The Association maintained an employee theft policy with a \$1,000,000 single loss limit of insurance and forgery or alteration coverage of \$750,000 single loss limit of insurance for the operations of the Association. 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.

PENSION PLANS AND OTHER EMPLOYEE BENEFIT PLANS

The Association provided a health and welfare program for its officers and employees. It appears that adequate and/or reasonable provisions were made within the financial statements for the Association's obligations under such plans. The following is a brief description of the plans offered.

Insurance Company-Supported Organizations Employees' Pension Plan: This program is a qualified, defined benefit pension plan covering full-time employees who meet eligibility requirements. The Plan covers those employees hired after January 1, 1989.

Health and Wellness Benefit Plan: This program is a postretirement health care plan covering full-time employees who retire after fifteen (15) years of service. Costs are funded annually by the Association.

Defined Compensation Plan: The Association sponsored a contributory, tax-favored savings program (401K) for all eligible employees where the Association matched 75% of eligible employee contributions which may not exceed 6% of their gross salary.

ACCOUNTS AND RECORDS

The Association's 2018 trial balances were tied to the audited financial statements filed with the MID, with no material exceptions noted. The Association was audited annually by an independent CPA firm.

The Association processed all information at its home office located in Ridgeland, Mississippi.

FINANCIAL STATEMENTS

Introduction

The following financial statements consist of a Statement of Financial Position as of December 31, 2018, and a Statement of Activities for the period ended December 31, 2018, and a Reconciliation of Examination Adjustments to Net Assets as of December 31, 2018.

**Statement of Financial Position as of
December 31, 2018**

<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 571,311
Accrued Interest Receivable	461,170
Investments	104,555,102
Fixed Assets, Less Accumulated Depreciation of \$247,624 in 2018	<u>38,974</u>
Total Assets	<u>\$ 105,626,557</u>

<u>LIABILITIES</u>	
Estimated Claims and Adjustment Expenses	\$ 85,901,362
Postretirement Benefit Obligations	<u>1,231,454</u>
Total Liabilities	<u>87,132,816</u>
Net Assets	<u>18,493,741</u>
Total Liabilities and Net Assets	<u>\$ 105,626,557</u>

Statement of Activities
For the period ended December 31, 2018

Revenues:	
Recoveries	\$ 17,625,962
Investment Income	<u>2,110,053</u>
Total Revenues	<u>\$ 19,736,015</u>
Expenses:	
Claim Losses	\$ 5,991,490
Legal and Adjuster Fees	743,771
Increase (Decrease) in Estimated Claims and Adjustment Expenses	7,494,524
Administrative	1,012,022
Depreciation	4,710
Unrealized Losses on Investments	836,174
Realized Losses on Sale of Investments	<u>29,627</u>
Total Expenses	<u>\$ 16,112,318</u>
Change in Net Assets	\$ 3,623,697
Net Assets at Beginning of Year	<u>14,870,044</u>
Net Assets at End of Year	<u><u>\$ 18,493,741</u></u>

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO NET ASSETS
DECEMBER 31, 2018**

There were no changes made to the net assets reported by the Association for the year ended December 31, 2018. The net assets, which totaled \$18,493,741 as of the examination date, was determined to be reasonably stated.

COMMENTS AND RECOMMENDATIONS

The following comments and recommendations reflect findings as of the examination date.

1. It is recommended that the Association provide the Conflict of Interest Policy to all Board members and that each member of the Board sign a Conflict of Interest Statement annually, with any noted conflicts being reviewed by the Executive Director and Chairman of the Board. (Page 6)

COMMITMENTS AND CONTINGENT LIABILITIES

During the examination period of January 1, 2014 through December 31, 2018, there was no litigation, commitments or other contingent liabilities to which the Association was a party.

SUBSEQUENT EVENTS

No significant events were identified subsequent to the examination date and prior to the date of the examination report.

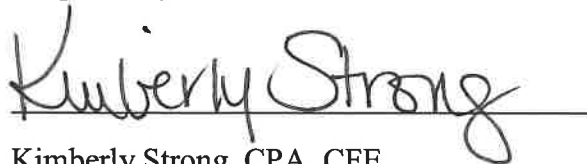
ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Jimmy Blissett, CFE	Administrative Examiner
Kimberly Strong, CPA, CFE	Examiner-in-charge, Harper, Rains, Knight & Co.
Stephen Solomon	Financial Examiner, Harper, Rains, Knight & Co.
Russ Thompson	Financial Examiner, Harper, Rains, Knight & Co.

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Kimberly Strong, CPA, CFE
Examiner-in-charge



Mark Cooley, CFE
Mississippi Insurance Department Designee