

TABLE OF CONTENTS

BOARD OF DIRECTORS	iv
GENERAL	1
2008 MEETINGS	1
OFFICE OF THE EXECUTIVE DIRECTOR	2
FINANCIAL REPORTS	3
2008 INSOLVENCY ASSESSMENT	3
INSOLVENCIES.....	3
LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE ACTIVITY.....	3
LOSS AND LOSS ADJUSTMENT EXPENSE PAYMENTS	4
OPEN INSOLVENCIES.....	4
SUMMARY COMMENTS ON ESTATES WITH SIGNIFICANT AND MATERIAL ACTIVITY	6
AMERICAN EAGLE INSURANCE COMPANY.....	6
CALIFORNIA COMPENSATION INSURANCE COMPANY.....	6
FREMONT INDEMNITY COMPANY.....	6
INTEGRITY INSURANCE COMPANY.....	6
LAWRENCEVILLE PROPERTY AND CASUALTY INSURANCE COMPANY	7
LEGION/VILLANOVA INSURANCE COMPANIES.....	7
RECIPROCAL OF AMERICA.....	8
RELIANCE INSURANCE COMPANY.....	8
STATEWIDE INSURANCE COMPANY.....	9
TRANSIT CASUALTY COMPANY.....	9
LITIGATION	9
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008	10
SUPPLEMENTAL STATEMENTS AS OF DECEMBER 31, 2008.....	15
ACCUMULATIVE STATEMENTS AS OF DECEMBER 31, 2008	69
CLOSED ESTATES AS OF DECEMBER 31, 2008.....	122

Board of Directors
of the
Missouri Property and Casualty Insurance
Guaranty Association

<u>COMPANY</u>	<u>REPRESENTATIVE</u>
American Family Mutual Insurance Company	David A. Monaghan
Automobile Club Inter-Insurance Exchange	Michael C. Berkley
Cornerstone National Insurance Company	D. Scott Forrest
Farm Bureau Town & Country Insurance Company of Missouri	Michael P. Voiles
Liberty Mutual Insurance Company	Charles H. Burhan
Shelter Insurance Companies	Joe L. Moseley
State Farm Mutual Automobile Insurance Company	Debra G. Wozniak

**ANNUAL REPORT OF THE
MISSOURI PROPERTY AND CASUALTY INSURANCE
GUARANTY ASSOCIATION
FOR YEAR ENDING DECEMBER 31, 2008**

The Annual Report of the Missouri Property and Casualty Insurance Guaranty Association (the "Association") for the year ending December 31, 2008 is herewith submitted to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP") and the Board of Directors.

GENERAL

As of December 31, 2008, there were 904 companies licensed to sell property and casualty insurance coverage and by the terms of sections 375.771 to 375.779, Revised Statutes of Missouri, all were deemed to be members of the Association. Lines of coverage written by the authorized member insurers are identified on the State Supplemental Page to the Annual Statement. The Association does not cover all of the lines of coverage identified on the State Supplemental Page.

2008 MEETINGS

The Annual Meeting of the Membership was held on September 23, 2008. As a course of business for this meeting, two members were elected to serve on the Board of Directors for a term that will expire in 2011. Those members are:

**Automobile Club Inter-Insurance Exchange
Representative: Michael C. Berkely**

**Cornerstone National Insurance Company
D. Scott Forrest**

On the same date, the Board of Directors elected the following officers to serve for a term of one year, or until a successor is duly elected:

<u>NAME</u>	<u>COMPANY</u>
Michael P. Voiles, Chair	Farm Bureau Town and Country Insurance Company of Missouri
Debra G. Wozniak, Vice- Chair	State Farm Mutual Automobile Insurance Company
David A. Monaghan, Secretary and Treasurer	American Family Mutual Insurance Company

During 2008, the Board of Directors continued the practice of meeting regularly on a quarterly basis. The Board employs this practice to facilitate involvement with the ongoing functions and the administrative duties of the Association. Minutes of all meetings of the Member Insurers, the Board of Directors, and other Board appointed committees are on file at the office of the Association in Jefferson City, Missouri.

OFFICE OF THE EXECUTIVE DIRECTOR

The Association has maintained as one of its goals the improvement of productivity through the utilization of technology. Keeping in line with that objective, during 2008 the Association concluded the necessary steps to be fully compliant with the Uniform Data Standards - D Record reporting requirements. This accomplishment allows the Association to exchange financial data with receiverships through a uniform electronic format. This is in addition to the current capability of electronically exchanging claim related information. The benefit will be reduced time allocated to receivership reporting and the reduction in data errors.

The National Conference of Insurance Guaranty Funds (the "NCIGF") continued during 2008 to finalize and implement their strategic plan. The Association was involved in this process through the continued participation of the Executive Director and one of the members of the board on the Strategic Plan Oversight Committee. Through this direct involvement, the Association has attempted to posture itself so as to be prepared for the next generation of property and casualty insolvencies.

During 2008, the Association was active in other committees of the NCIGF. The Executive Director represents the Association by serving on the following committees of the national organization:

The Accounting Issues Committee

The Strategic Plan Oversight Committee

The Casualty Reciprocal Exchange/Equity Mutual Coordinating Committee

The PHICO Coordinating Committee

The Reciprocal of America Coordinating Committee

FINANCIAL REPORTS

The financial statements for the year ending December 31, 2008 are attached to this report. In addition to the Statement of Financial Position, the Statement of Activity and the Statement of Cash Flows, there are Supplemental Statements of Revenues, Expenses and Net Assets that represent the year-end status of each estate. The report also includes Accumulative Statements of Revenue, Expenses, and Net Assets that depict the financial activity of each insolvency since its inception. These statements are unaudited.

The accounting firm of Williams-Keepers, LLC, Jefferson City, Missouri, has been retained to conduct the annual audit of the financial records of the Association as of the year ending December 31, 2008. When the audit is completed, copies of the audit report can be obtained by contacting the Association's office.

2008 INSOLVENCY ASSESSMENT

The Association is authorized under section 375.775, Revised Statutes of Missouri, to assess its membership for the purpose of providing the funding necessary to meet the Association's requirements with respect to insolvent member insurers. At the September 23, 2008 meeting of the Board of Directors, it was determined that no assessment would be made in 2008.

INSOLVENCIES

As of December 31, 2008, the Association administered 51 open insolvencies. Included in this total are 32 insolvencies which have no open claims. There was one new insolvency in 2008. Two estates closed during the year.

Loss and Loss Adjustment Expense Reserve Activity

During 2008 the open claims count for the Association decreased by 59. Reflected below is a summary of ending reserves and reserve changes for 2008:

	Open Claims	Loss Reserves	Expense Reserves	Change in Open Claims	Change In Loss Reserves	Change In Expense Reserves
Totals	179	42,670,826	1,511,444	(59)	(434,104)	(5,209,335)

Loss and Loss Adjustment Expense Payments

Payment Activity for 2008:

Company	Losses Paid	ALAE Paid	Salvage/ Subrogation & Large Deductible Recoveries
AMLICO	46,166	4,678	0
California Comp	69,096	9,497	0
Commercial Comp	74,446	6,123	0
Casualty Reciprocal	74,239	4,987	0
Credit General	288,330	28,563	0
Employers Casualty	2,685	265	0
Employers National	58,020	2,466	0
Equity Mutual	22,683	0	0
Fremont Insurance Co	393,054	68,896	(151,395)
Home Insurance Co	262,450	18,206	0
IGF	0	63	0
Legion Insurance Co	873,182	83,254	0
PHICO	343,171	180,664	0
Reliance Insurance Co	961,876	182,783	(116,667)
ROA	247,943	25,545	0
Shelby Casualty	32,465	16,559	0
Statewide Insurance Co	37,906	7,051	0
Villanova	58,751	3,156	0
Total	\$3,846,461	\$642,755	(\$268,061)

Open Insolvencies

Section 375.775.1(6), Revised Statutes of Missouri, requires that a financial report for the preceding year be submitted to the Director of the Missouri Department of Insurance. Further, Section 375.776.5(3), Revised Statutes of Missouri, requires the Association to prepare a summary report describing the history and causes of individual insolvencies. This Annual Report contains a review of the activities of the Association during the preceding year. The following vignettes are intended to fulfill the requirement for a summary report, and to update the membership about the status of each estate that had significant and material activity during the calendar year 2008. A listing of all open estates and their state of domicile is included for the memberships' reference.

Open Insolvencies

1985

Ideal Mutual Ins. Co. - NY
S&H Ins. Co. - CA
Transit Casualty Ins. Co. - MO
Union Indemnity Ins. Co. - NY

1986

American Fidelity Ins. Co. - NY
Midland Ins. Co. - NY

1987

Integrity Ins. Co. - NJ

1989

American Mutual Ins. Co. of Boston - MA
American Mutual Liability Ins. Co. - MA
Great Atlantic Ins. Co. - DE

1990

Ohio General Ins. Co. - OH

1991

American Universal Ins. Co. - RI
Rockwood Ins. Co. - PA
Western Employers Ins. Co. - CA

1992

First Southern Ins. Co. - FL
West General Ins. Co. - KS

1993

Bel-Aire Ins. Co. - MO
State Security Ins. - IL

1994

Employers Casualty Ins. -TX

1995

United Community Ins. Co. - NY

1996

Coronet Ins. Co. -IL
Lutheran Benevolent Ins. Exchange - MO
United Southern Assurance Co. - FL

1997

American Eagle Insurance Co. - TX
Insurance Corporation of America - TX

1998

PIE Mutual Ins. Co. - OH

2000

California Compensation Ins. Co. - CA
Commercial Compensation Casualty Co. - CA
Hamilton Ins. Co. - PA
HIH America Compensation & Liability - CA
LMI - OH

2001

Acceleration National Ins. Co. - OH
Credit General Ins. Co. - OH
Reliance Ins. Co. - PA
Sable Ins. Co. - CA

2002

PHICO Ins. Co. - PA

2003

Fremont Insurance Co. - CA
Home Insurance Co. - NH
Legion Ins. Co. - PA
Villanova Ins. Co. - PA
Millers Insurance Co. - TX
Reciprocal of America - VA

2004

Casualty Reciprocal Exchange - MO
Equity Mutual Insurance Co. - MO
IGF Insurance Co. - IN
Security Indemnity - NJ
Statewide Insurance Co. - IL

2006

Consolidated American Ins. Co. - SC
Shelby Casualty Ins. Co. - TX
Vesta Fire Ins. Co. - TX

2008

Lawrenceville P&C (MIIX) - NJ

**SUMMARY COMMENTS ON ESTATES WITH
SIGNIFICANT AND MATERIAL ACTIVITY**

American Eagle Insurance Company

On January 14, 2008, the Special Deputy Receiver for this Texas domiciled insolvency petitioned the District Court in Travis County, Texas for an order approving a fifth Early Access distribution to affected guaranty associations along with a payment of claims for administrative expenses. The court subsequently approved the order and the Association received approximately \$340,000 as its proportion of the distribution.

California Compensation Insurance Company

The Los Angeles Superior Court approved an order authorizing the sixth distribution to the affected guaranty associations on August 24, 2008. The Association received approximately \$299,000 as its share of the total \$26 million distribution from the estate. This distribution brings the total received from this estate to approximately fifty percent of paid claims.

Fremont Indemnity Company

In October of 2004, the Association entered into an agreement to receive early access from the assets of this California domiciled insolvent insurer. On June 11, 2008, the Superior Court of the State of California for the County of Los Angeles approved the Fifth Early Access Distribution of Assets to Insurance Guarantee Associations or Funds for Fremont Indemnity Company in Liquidation. The total distribution was approximately \$50 million. The Association received \$196,038 as its percentage of the distribution. This distribution would be in relation to approximately \$7 million in paid losses and related expenses.

Integrity Insurance Company

On May 6, 2008, the Superior Court of New Jersey entered an order approving a motion to Increase the Distribution Rate on Fourth Priority Claims and Authorize Disbursements of the Sixteenth Early Access Advance and the Seventh Interim Distribution. Previously, in April of 2008, the statutory liquidator had filed a motion seeking approval to close the estate under a Liquidation Closing Plan.

The court issued its order approving an Amended Liquidation Closing Plan. The court, in giving great deference to the authority of the liquidator to set the parameters of the liquidation closing plan, overruled certain objections. In doing so, the court preserved the liquidator's proposed final claims bar date of June 30, 2009, the date by which all claims must become absolute if they are to be considered by the liquidator. The court also preserved the liquidator's proposed final claims filing date of September 30, 2009, the date by which all supporting documentation (on claims that became absolute prior to June 30, 2009) must be filed with the liquidator.

Subsequent actions by the court have lifted a stay against the liquidator's efforts to make distributions from the estate under the Liquidation Closing Plan. The liquidator is obligated to file a motion for reconsideration on this matter. However, it is now assumed that the liquidator will forgo making any further distributions until after the claims filing deadlines in 2009. The estate made a distribution under the order approving the Early Access Advance. The Association received \$484,271 as its portion of the advance.

Lawrenceville Property and Casualty Insurance Company

As of June 2008, the estate has between \$25-30 million in cash in short term investments earning interest at market rates. There has been some confusion regarding the licensing dates and merger dates of the insolvent surviving New Jersey domiciled company, MIIX; and its subsidiaries; Lawrenceville Property & Casualty Company and American Medical Mutual. For the Association, this information is needed to determine if loss portfolio transfers by the subsidiaries are covered claims. Lawrenceville was licensed in Ohio, Missouri, Texas and Illinois.

The receiver has advised the affected associations that most policies contain a consent to settle provision and that it is the receiver's desire that the guaranty associations will honor this provision. It should be noted that the order of liquidation did not contain a notice of policy cancellation because all the policies had non-renewed prior to the date of liquidation. It has also been confirmed there is no reinsurance in effect and consequently, there were no aggregate issues and therefore no need for aggregate reporting on this insolvency.

Legion/Villanova Insurance Companies

The Association received a second Early Access distribution from these estates on January 3, 2008. The combined amount for Legion and Villanova was approximately \$1.4 million. Subsequently, in October of 2008, the Association received approximately \$1.6 million in the form of a third Early Access distribution from the estates of the Legion Insurance Company and the Villanova Insurance Company. These amounts are attributable almost exclusively to claim liability for workers' compensation payments. During the second quarter of 2008, the receiver also released funds that have been collected for payments made on large deductible policies. The amount received by the Association was approximately \$13,000.

During the last quarter of 2008, the receiver's office for Legion/Villanova contacted the Association to arrange for an on-sight audit. The audit was subsequently conducted over a three-day period in January of 2009. There were no exceptions cited by the auditors in regard to the Association's methodologies for allocating expenses or claims processing.

Reciprocal of America

The Hearing Examiner for the Virginia State Corporations Commission agreed with the position of the guaranty associations relating to litigation between the receivership and federal risk retention groups seeking policyholder status for membership. The ruling adopted the argument that the federal risk retention act prohibits risk retention groups from using equitable arguments to give them policyholder level priority and that the Virginia liquidation statute does not afford discretion to alter the statutory priorities. The positive result of the ruling was that it preserved over \$70 million in estate assets for distribution to affected guaranty associations

The State Corporation Commission's Order granting summary judgment for the Special Deputy Receiver on this issue was signed on February 14, 2008. It was understood that the risk retention groups must have filed a request for any appeal with the Virginia Supreme Court within four months of this order, or by June 13, 2008. However, counsel for the receivership has expressed reservations about interpreting this deadline as being totally applicable to this situation. Nonetheless, as of the end of 2008 there has not been a request for an appeal filed.

Reliance Insurance Company

The estate continues the effort of collecting from the reinsurers. Many treaties are being commuted. The estate is also working with the individual affected guaranty associations to refine loss reserves on workers' compensation claims. The adjustments are intended to result in more accurate reporting to the reinsurers. Adjustments are being made to reflect such factors as medical care inflation and life expectancy.

It is estimated that the guaranty associations will have approximately 75% of the claims against the estate assets. Estimated ultimate distributions are currently projected to be 60%. The receiver has indicated that the desire is to close the estate within the next six years. A final settlement will be made with affected guaranty associations based on outstanding reserves at the closing date. Guaranty associations are being encouraged to make lump sum settlements on workers' compensation claims whenever possible. During 2008, the estate made a 20% liquidation distribution to claimants not covered by the guaranty associations. A request was made to release a similar percentage of the Early Access funds previously distributed to the guaranty associations. This request was denied by the receiver.

Statewide Insurance Company

This Illinois domiciled company was ordered into liquidation by the Circuit Court of Cook County, Illinois on January 6, 2004. The deadline for filing claims against the estate was January 6, 2006. In September of 2008, the estate made a distribution under an existing Early Access agreement. The Association received \$447,062. This amount was divided between Workers' Compensation and All Other Accounts; \$209,181 and \$237,881, respectively. This is in relation to approximately \$1.1 million in paid losses and expenses.

Transit Casualty Company

On December 4, 2007, a hearing was held in the Circuit Court of Cole County, Missouri to consider a petition to Approve a Thirteenth Partial Distribution of Transit's Assets to Claimants. The distribution would increase the aggregate distributions to all Class 3 claims from 75% to 79%. There were two objections filed to the additional distribution. Counsel for Price Waterhouse and for J.C. Penney Life both asked that a reserve be set for their Class 4 claim. The receiver did disclose that the estate currently held approximately \$162 million in assets prior to the proposed distribution. It was further stated that the estate has six open claims that are yet to be resolved. The distribution was not made.

In other matters, a Compromise Settlement was consummated with H.K. Porter and other entities that resulted in the resolution of certain claims between the guaranty association affected by the insolvency, the Transit Casualty estate and the H.K. Porter Company. The documentation to finalize the settlement was completed in 2008.

LITIGATION

It is part of the statutory responsibility of the Association in assuming the obligations on covered claims of the insolvent insurer to provide for the defense of insureds. Consequently, the Association is involved in numerous instances of defense litigation. This section of the report is not intended to address litigation of this nature. In contrast, this section of the report is intended to highlight those instances where the Association is litigating a matter involving an interpretation of the Missouri Property and Casualty Insurance Guaranty Association Act. There is no such litigation pending as of December 31, 2008.

Missouri Property & Casualty Insurance Guaranty Association
Comparative Statement of Financial Position
as of December 31, 2008

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
ASSETS:		
Current Assets:		
Cash & Cash Equivalents	775,448.79	1,279,531.33
Accounts Receivable	698,540.34	820,205.71
Other Short Term Investments	83,421,492.21	78,923,813.72
	<hr/>	<hr/>
Total Current Assets	84,895,481.34	81,023,550.76
Long Term Assets:		
Unbilled Assessments	38,942,977.00	38,942,977.00
Long Term Investments	0.00	0.00
Capital Assets	30,126.19	28,192.86
	<hr/>	<hr/>
Total Long Term Assets	38,973,103.19	38,971,169.86
	<hr/>	<hr/>
Total Assets	\$ 123,868,584.53	\$ 119,994,720.62
	<hr/> <hr/>	<hr/> <hr/>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Due to MOLHIGA	\$ 16,187.01	\$ 30,941.43
Accounts Payable	0.00	0.00
CB Payable-Line of Credit	1.00	1.00
	<hr/>	<hr/>
Total Current Liabilities	16,188.01	30,942.43
Long-Term Liabilities:		
Funds Held for Others	75,739,399.14	65,393,563.83
Est Clms Payable (LAE)	1,511,443.57	6,720,778.28
Est Clms Payable (Loss/Auto)	102,200.00	392,700.00
Est Clms Payable (Loss/WC)	41,847,101.34	35,281,050.77
Est Clms Payable (Loss/Other)	721,525.00	7,431,179.27
Est Clms Payable (RP)	0.00	3,784.00
	<hr/>	<hr/>
Total Long-Term Liabilities	119,921,669.05	115,223,056.15
	<hr/>	<hr/>
Total Liabilities	119,937,857.06	115,253,998.58
	<hr/>	<hr/>
Net Assets	3,930,727.47	4,740,722.04
	<hr/>	<hr/>
Total Liabilities & Net Assets	\$ 123,868,584.53	\$ 119,994,720.62
	<hr/> <hr/>	<hr/> <hr/>

Missouri Property & Casualty Insurance Guaranty Association
Comparative Statement of Activities
as of December 31, 2008

	<u>Current Year to Date</u>	<u>Prior Year to Date</u>	<u>Prior Year Ended Dec. 31</u>
REVENUES:			
Assessment Income	0.00	0.00	0.00
Change in Unbilled Assessments	0.00	(1,271,589.00)	(1,271,589.00)
Liquidation Distributions	2,075,454.17	4,287,157.75	4,287,157.75
Investment Income	3,077,724.07	3,733,826.07	3,733,826.07
Miscellaneous Income	8.00	(96,083.93)	(96,083.93)
Total Revenues	5,153,186.24	6,653,310.89	6,653,310.89
EXPENSES:			
Claims and Loss Adjustment Expenses:			
Losses Paid (net of Subrogation)	3,578,399.89	3,723,610.49	3,723,610.49
Loss Adjustment Expenses	642,754.58	691,589.22	691,589.22
Unearned Premium Claims	(16,284.03)	6,186.76	6,186.76
Change in Est. Claims	(5,647,222.41)	(12,275,606.80)	(12,275,606.80)
TPA Expense	0.00	9,600.00	9,600.00
LD Recovery Costs	5,641.89	105,982.52	105,982.52
Total Loss & Loss Adj Expenses	(1,436,710.08)	(7,738,637.81)	(7,738,637.81)
Gen & Admin Expenses	418,287.91	577,423.43	577,423.43
Total Expenses	(1,018,422.17)	(7,161,214.38)	(7,161,214.38)
Inc (Dec) in Net Assets	6,171,608.41	13,814,525.27	13,814,525.27
Refunds to State/Members	0.00	(8,000,000.00)	(8,000,000.00)
Beginning Net Assets	4,740,722.04	(1,073,803.23)	(1,073,803.23)
Prior Period Adjustment	(6,981,602.98)	0.00	0.00
Ending Net Assets	3,930,727.47	4,740,722.04	4,740,722.04

December 31, 2008

Missouri Property & Casualty Insurance Guaranty Association
Statement of Cash Flow
For the twelve Months Ended December 31, 2008

	<u>Current Month</u>	<u>Year to Date</u>
Cash Flows from Operating Activities		
Net Inc(Dec) in Fund Balance	\$ 284,576.36	\$ 6,171,608.41
Adjustments to reconcile net income to net cash provided by operating activities		
Dec(Inc) in Prepaid Exp.	(53,828.58)	(59,372.50)
Dec(Inc) in Accts. Rec.	147,852.34	121,665.37
Inc (Dec) in Accts Pay	6,803.38	10,331,080.89
Inc(Dec) in Est. Claims Pay.	(275,706.58)	(5,647,222.41)
Dec(Inc) in Unbilled Asmts.	0.00	0.00
	<hr/>	<hr/>
Total Adjustments	(174,879.44)	4,746,151.35
	<hr/>	<hr/>
Net Cash provided by Operations	109,696.92	10,917,759.76
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Proceeds(Costs) of Bonds	448,727.66	(4,497,678.49)
Dec(Inc) in Money Market	(289,462.83)	75,989.59
Dec(Inc) in Capital Assets	701.36	(1,933.33)
	<hr/>	<hr/>
Net cash provided(used) in investing	159,966.19	(4,423,622.23)
	<hr/>	<hr/>
Cash Flows from Financing Activities		
Prior Period Adjustment	0.00	6,981,602.98
Refunds to State/Members	0.00	0.00
	<hr/>	<hr/>
Net cash from financing	0.00	(6,981,602.98)
	<hr/>	<hr/>
Net increase <decrease> in cash	269,663.11	(487,465.45)
	<hr/>	<hr/>
Summary		
Beginning Cash Balance	(687,684.99)	69,443.57
Ending Cash Balance	(418,021.88)	(418,021.88)
Net increase(decrease) in cash	269,663.11	(487,465.45)
	<hr/> <hr/>	<hr/> <hr/>