REPORT ON EXAMINATION

of the

TENNESSEE INSURANCE GUARANTY ASSOCIATION
1600 DIVISION STREET – SUITE 680
NASHVILLE, TENNESSEE 37203

RECEIVED
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Dept. of Commerce & Insurance
Company Examinations

as of

DECEMBER 31, 2011

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT
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Nashville, Tennessee
May 8, 2013

Honorable Julie Mix McPeak
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and regulations, a financial examination was made of the condition and affairs of the

TENNESSEE INSURANCE GUARANTY ASSOCIAITON
1600 DIVISION STREET – SUITE 680
NASHVILLE, TENNESSEE 37203

hereinafter and generally referred to as the "Association," and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee ("TDCI") on November 28, 2011. On-site examination work commenced on November 27, 2012. The Association is the guaranty association covering property and casualty business in the State of Tennessee and therefore, is not classified as an Association Examination under National Association of Insurance Commissioners' Guidelines. The examination was performed by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2007, to the close of business on December 31, 2011, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The examination was planned and performed to evaluate the financial condition and identify prospective risks of the Association by obtaining information about the Association, including corporate governance, identifying and assessing inherent risks within the Association, and

evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Generally Accepted Accounting Principles pertaining to guaranty funds.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process.

In addition, the following topics were reviewed:

Company History
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Plan of Operation
Retirement Plan and Other Employee Benefits
Accounts and Records
Antitrust Statement and Conflict of Interest Policy
Dividends or Distributions
Litigation
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 2006, by authorized representatives of the TDCI. The previous examination resulted in no recommendations and therefore; no directives were issued by the TDCI.

COMPANY HISTORY

The Association was organized pursuant to and operates in accordance with the Tennessee Guaranty Association Act (TENN. CODE ANN. § 56-12-101, *et seq.*) effective July 1, 1971. Under the provisions of this Act, the Commissioner of Commerce and Insurance appointed five (5) members to the Board of Directors. These five members then submitted a "Plan of Operation" on November 21, 1971, to the Commissioner, who approved it effective December 17, 1971.

The current operations of the Association are governed by an updated Plan which was approved by the Commissioner effective December 17, 1997. Detail is included under the caption, "PLAN OF OPERATION" in this report.

The following exhibit depicts certain aspects of the growth and financial history of the Association since the previous examination, according to annual reports filed with the TDCI.

Year	Assets	Liabilities	Fund Value/Net Assets	Declared Assessment
2007	$107,363,665	$85,083,561	$22,280,104	$0
2008	113,429,910	80,532,189	32,897,721	0
2009	115,216,003	82,605,121	32,610,882	0
2010	132,996,201	89,665,825	43,330,376	0
2011	136,567,195	85,349,695	51,217,500	0

CHARTER AND BYLAWS

No charter or bylaws are required to be filed as the Association operates in accordance with TENN. CODE ANN. § 56-12-101 *et seq.* pursuant to its approved "Plan of Operation" which is discussed under the caption, "PLAN OF OPERATION" in this report.

MANAGEMENT AND CONTROL

Regular meetings and special meetings of the Board of Directors may be held upon the request of any two (2) Board members. The Plan of Operation also states that "the Board shall meet annually at the office of the Commissioner of Commerce and Insurance on the second Tuesday in May, and also upon notice from the Commissioner of any insolvency of a member insurer."

The majority of the Board shall constitute a quorum for the transaction of business and the acts of a majority of the Board members present at a meeting shall be the acts of the Board; except that the affirmative vote of four (4) members is required to:

1. Approve a contract with a servicing facility.
2. Levy an assessment or provide for a refund.
3. Borrow money.

The following were the duly appointed Directors at December 31, 2011:

Name	Company Affiliation
Jerry A. Mayo, Chairman	HDI-Gerling American Insurance Company
Steven C. Williams, Vice Chairman	State Volunteer Mutual Insurance Company
Lorrie K. Brouse, Secretary	Allstate Insurance Company
Jeff L. Shay	State Farm Insurance Companies
Mathew S. Scoggins, Jr.	Tennessee Farmers Insurance Companies

As of December 31, 2011, the Audit Committee consisted of:

Steven C. Williams, Chairman
Lorrie K. Brouse
Jeff L. Shay

Mr. W. Davidson Broemel was named Executive Secretary of the Association on February 14, 1986, and was serving in said position as of the date of this examination. Mr. Broemel acts as the business manager for the Association and is responsible for the general administration of its day-to-day operations. Ms. Ivi Niemann acts as Administrator of the Association. The administrative functions of the Association are performed by the home office staff consisting of six (6) employees.

Certain services were purchased from outside contractors if needed and are not available from in house personnel. Such services include independent audit, third party administration of claims, claim reserving review and claims handling practices review from the following outside parties;

1. Auditing Services: Crosslin & Associates, P.C.
   2525 West End Avenue, Suite 1100
   Nashville, Tennessee 37203

2. Third Party Administrators: Berkley Risk Administrators Company, LLC
   222 South Ninth Street
   Minneapolis, Minnesota 55402

3. Reserve Review: Willis of Tennessee, Inc.
26 Century Boulevard #101
Nashville, Tennessee 37214-4614

4. Claim Handling Review: York Insurance Service Group, Inc.
99 Cherry Hill Road, Suite 102
Parsippany, New Jersey 07054

CORPORATE RECORDS

Minutes of meetings of the Board of the Association and Audit Committee were reviewed for the period under examination. In general, such minutes were in proper order and accurately reported the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

The Association maintained the following insurance coverages:

1. A Commercial Crime policy with limit of $1,000,000 and deductible of $10,000 for employee theft and some other occurrences was obtained through Travelers Casualty & Surety Company of America.

2. A Commercial Business Owners Policy covering general liability with a $1,000,000 limit and $2,000,000 general aggregate was obtained through The Travelers Indemnity Company of Connecticut. This policy also includes coverage for replacement of business personal property such as computer equipment.

3. Workers Compensation and Employers Liability coverage was obtained through Travelers Commercial Casualty Company. The coverage meets statutory limits.

4. A standard Business Auto policy was obtained through The Travelers Indemnity Company of Connecticut which covers the automobile leased in the name of the Association.

All of the above companies were licensed in Tennessee as "Foreign Property and Casualty Insurers."

The Association has elected not to obtain Directors and Officers or Errors and Omissions Coverage due to the provision stated in TENN. CODE ANN. § 56-12-116 as follows:

> "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 or its agents or employees, the board of directors, or the commissioner or his representatives for any action taken by them in the performance of their powers and duties under this part."

PLAN OF OPERATION

The Association was organized pursuant to, and operates in accordance with, TENN. CODE ANN. § 56-12-101, *et seq*. The purpose of the Association is 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 an insurer, and to provide a process for the Association to assess the cost of such protection among insurers.

The Association has the responsibility to settle covered claims of insurers as of the date the insurer is declared insolvent and any claims arising 30 days after the determination of insolvency. Covered claims are unpaid claims and, prior to July 1, 1989, excluded unearned premium claims, which arise out of and are within the coverage and do not exceed the applicable limits of certain insurance policies issued by a member insurer which becomes insolvent. The Association shall pay the full amount of any covered claim arising from a workers' compensation policy. Claim settlement amounts for other coverages are subject to statutory limits or the policy limits, whichever is lower. There is a statutory deductible per claim for all claims except workers' compensation claims. The deductible states that the amount to be paid "shall include the amount which is in excess of $100 and is less than $100,000."

In 1989, the State of Tennessee enacted legislation which provided that, for companies declared insolvent on or after July 1, 1989, unearned premium claims, subject to certain limits, shall be considered covered claims as defined under the Tennessee Insurance Code. These claims also have a statutory deductible. Accordingly, the settlement of such claims is the responsibility of the Association.

In 1995, the State of Tennessee enacted legislation which allows the Association to authorize the Tennessee Local Development Authority to issue tax exempt bonds and/or notes to expedite the handling and payment of natural disaster covered claims if funds needed to pay these claims are in excess of assessment

capacity. The act also bars claims which have been filed with the Association and the domiciliary or ancillary receiver after the final date set by a court order for the filing of claims against the domiciliary or ancillary receiver of an insolvent insurer.

In 1999, the State of Tennessee enacted legislation which amended the definition of a covered claim to exclude any first party claim by an insured whose net worth exceeds $10,000,000 or who is an affiliate of the insolvent insurer. This amendment also gave the Association the right to recover the amount of any liability (third party) claim paid on behalf of an insured whose net worth exceeds $25,000,000 or on behalf of any insured who is an affiliate of the insolvent insurance company.

TENN. CODE ANN. § 56-12-104(7)(A) was also amended in 1999 to clarify the definition of "Covered claim" by adding the revised language as follows:

> "Covered claim means an unpaid claim, including one for unearned premiums, submitted by a claimant, which arises out of and is within the coverage and is subject to the applicable limits of an insurance policy to which this part applies and was issued by an insurer which is insolvent, if such insurer becomes an insolvent insurer after March 31, 1999."

TENN. CODE ANN. § 56-12-105(d) provides that "For purposes of assessment, and the maintenance of records, the Association shall be divided into two (2) separate accounts as follows:

1. The workers' compensation insurance account; and
2. The account for all other insurance to which this part applies."

TENN. CODE ANN. § 56-12-107(3) provides that "No member insurer may be assessed in any year on any account an amount greater than two (2) percent of that member insurer's net direct written premiums for the preceding calendar year on the kinds of insurance in the account."

As of December 31, 2011, there were 30 active insolvencies being administered by the Association. The insolvencies are as follows:

Name of Company	Date of Insolvency
American Mutual Assigned Risk "combined with" American Policyholders Reimbursement	3/9/1989
American Mutual Insurance Company	3/9/1989
American Mutual Liability	3/9/1989
American Policyholder's Reimbursement	3/9/1989
Atlantic Mutual Insurance Company	4/27/2011
Casualty Reciprocal Exchange	8/18/2004
Centennial Insurance Company	4/27/2011
Colonial Casualty Insurance Company	10/7/2002
Commercial Compensation Insurance Company	9/26/2000
Credit General Insurance Company	1/5/2001
First Southern Insurance Company	10/31/1992
Fremont Indemnity Insurance Company	7/2/2003
Home Insurance Company	3/16/2003
Ideal Mutual Insurance Company	2/7/1985
Imperial Casualty & Indemnity Company	5/12/2010
International Indemnity Company	1/18/2001
Legion Insurance Company	7/28/2003
Mission Insurance Company	2/24/1987
Pegasus Insurance Company, Inc.	8/12/2010
PHICO Insurance Company	2/1/2002
Realm National Insurance Company	6/15/2005
Reciprocal of America	6/20/2003
Reliance Insurance Company	10/3/2001
Rockwood Insurance Company	8/26/1991
Shelby Casualty Insurance Company	8/1/2006
Shelby Insurance Company	8/1/2006
South Carolina Insurance Company	3/21/2005
Vesta Fire Insurance Company	8/1/2006
Villanova Insurance Company	7/28/2003
Western Employers Insurance Company	4/19/1991
Western Indemnity Insurance Company	8/8/2003

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

At December 31, 2011, the following benefits were available to the Association's employees:

Group Life, Accidental Death and Dismemberment, Long Term Disability Insurance

The referenced benefits were provided to all full-time employees on a non-contributory basis. The plan was administered through Insurance Company Supported Organizations.

Health Insurance

Medical and dental insurance was provided to all full-time employees on a contributory basis. This coverage was provided through Aetna Insurance Company.

Retirement Plan (Defined Benefit Plan)

The Company sponsors a defined benefit pension plan for all eligible employees on a non-contributory basis. An employee becomes eligible for the plan when they have completed 12 months of eligibility service. The benefits are based on length of service and the employee's highest 60 months of consecutive compensation. The official name of the plan is "The Pension Plan for Insurance Organizations formerly known as The Benefits Connection Group Pension Plan."

Retirement Age
65 years (normal retirement)
62 years with 15 years service
55 years with 5 years service (early retirement)

Retirement Savings Plan (Defined Contribution Plan, 401-K)

The Company offers a 401-K Plan for all eligible employees. An employee becomes eligible following their 12 month anniversary of employment. The Company matches 75% of the employee contribution up to a maximum of six percent (6%) of eligible earnings.

Other Benefits

Other benefits available for employees include holidays, sick leave, vacation leave and use of onsite health club. The time of service with the Association determines the eligibility and amounts of time available to the employee.

ACCOUNTS AND RECORDS

During the course of the examination, such tests and audit procedures were made as were considered necessary. Accounting records conformed to generally accepted accounting practices and properly reflected the operations during the period under examination and the status of the Association at the date of examination. The Association converted from a cash basis of accounting to the accrual method in 1987.

The Association maintained the open claim files on a paperless system (ImageRight) which went live on September 5, 2006.

The Association continues to utilize the claim accounting system software which is provided by Information Services Unlimited, Inc. of Atlanta, Georgia. This is the same software used by 19 state guaranty associations.

An annual audit of the Association was performed for each year under examination by an independent accounting firm, Crosslin & Associates, P.C.

An independent reserve adequacy review was performed by Willis of Tennessee, Inc. as of December 31, 2011.

An independent review of claims handling procedures performed by third party administrators was performed by York Insurance Service Group, Inc. for the year 2011 and was conducted in February of 2012.

Books and records of the Association are kept at the home office location:

1600 Division Street – Suite 680
Nashville, Tennessee 37203

ANTITRUST STATEMENT AND CONFLICT OF INTEREST POLICY

The Board enacted an "Antitrust Policy and Compliance Statement" at the May 20, 1996 meeting. This policy continues to remain in force and is summarized as follows:

> "It is the established policy of the Board of Directors (the "Board") of the Tennessee Insurance Guaranty Association ("TIGA") to comply fully with all laws and regulations applicable to its operations. While the creation and operation of the Tennessee insurance guaranty fund is beneficial to consumers and does not raise concerns under federal or state antitrust laws, because the activities and functions of the Board bring together representatives of insurance companies that may be in competition, it is the policy of the Board, in the course of its activities and functions, to

discourage and prohibit the disclosure of competitive information and other information that does not further the purposes of the Board and that might be, under certain circumstances and along with other conduct, alleged to be violative of the federal or state antitrust laws. Because the burdens of defending even a frivolous antitrust suit are considerable, it is important to administer and operate the Board in a manner so as to avoid even the appearance of facilitating anticompetitive conduct. Accordingly, the Board has adopted a formal Antitrust Compliance Policy, which applies to all Board meetings and functions."

The Association had adhered to the National Conference of Insurance Guaranty Funds' antitrust policy for many years before adopting a written policy of its own.

The Association had a conflict of interest policy which prohibits the Directors, Officers and the Executive Secretary from having a pecuniary interest in investment or disposition of Association funds. This policy also prohibits other actions considered to be in conflict with the best interest of the Association. Directors, Officers and the Executive Secretary file annual certifications that they have read and understand the "TIGA Policy Statement" and have disclosed any situations which could create a possible conflict.

DIVIDENDS OR DISTRBUTIONS

No dividends or distributions have been paid to the members of the Association since its inception.

LITIGATION

As of December 31, 2011, the Company had no pending litigation other than in the normal course of business involving claim litigation. Possible litigation was not deemed to have a material financial effect as of the date of this report.

SUBSEQUENT EVENTS

Frontier Insurance Company was declared insolvent on November 16, 2012, and was the only new insolvency for the 2012 year. The Board determined not to declare any assessments for the 2012 year.

FINANCIAL STATEMENT

There follows a comparative financial statement covering the years 2007 through 2011 as established by this examination:

ASSETS

	2007	2008	2009	2010	2011
Cash and cash equivalents	$3,655,045	$715,541	$1,714,196	$539,761	$402,589
Investments	103,545,903	112,617,740	113,275,092	132,302,042	136,060,432
Claims reimbursements receivable	66,262	60,309	186,636	130,332	50,278
Assessments receivable	0	0	0	0	0
Prepaid expenses	0	0	0	0	0
Furniture, fixtures and equipment	96,455	36,320	40,079	24,066	53,896
Total assets	$107,363,665	$113,429,910	$115,216,003	$132,996,201	$136,567,195

LIABILITIES AND NET ASSETS

	2007	2008	2009	2010	2011
Reserve for claims, claim adjustment and administrative expenses	$85,072,161	$80,516,988	$81,999,878	$89,644,920	$85,277,882
Other liabilities	11,400	15,201	605,243	20,905	71,813
Total liabilities	85,083,561	80,532,189	82,605,121	89,665,825	85,349,695
Unrestricted net assets (deficiency)					
Workers' compensation account	(39,969,899)	(34,009,885)	(34,221,557)	(21,591,928)	(15,186,816)
All other insurance accounts	62,250,003	66,907,606	66,832,439	64,922,304	66,404,316
Total net assets	22,280,104	32,897,721	32,610,882	43,330,376	51,217,500
Total liabilities and net assets	$107,363,665	$113,429,910	$115,216,003	$132,996,201	$136,567,195

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	2007	2008	2009	2010	2011
REVENUE					
Investment income	$5,141,958	$2,583,965	$298,057	$231,578	$927,020
Liquidation distributions	11,262,634	11,830,701	7,110,118	24,791,676	9,570,306
Assessments (net of uncollectible)	0	0	0	0	0
Total revenues	16,404,592	14,414,666	7,408,175	25,023,254	10,497,326
Claims Activity					
Claims paid	6,852,014	6,607,398	5,352,961	5,348,662	5,353,208
Claim adjustment expenses paid	1,270,655	787,022	397,860	627,300	901,856
Claim and claim adjustment expense recoveries	(417,266)	(210,225)	(672,154)	(156,258)	(358,203)
Increase (decrease) in claims and claim adjustment expense reserves	1,199,302	(4,555,173	1,482,890	7,645,042	(4,367,038)
Total claims activity	8,904,705	2,629,022	6,561,557	13,464,746	1,529,823
Less claims reimbursements	27,623	317,285	237,217	182,386	91,949
Net claims activity	8,877,082	2,311,737	6,324,340	13,282,360	1,437,874
Excess (deficiency) of revenues over claims activity	7,527,510	12,102,929	1,083,835	11,740,894	9,059,452
GENERAL AND ADMINISTRTIVE EXPENSE					
Salary and related expenses	575,546	652,821	654,454	612,315	637,582
Other general and administrative expense	955,229	832,491	716,220	409,085	534,746
Total general and administrative expense	1,530,775	1,485,312	1,370,674	1,021,400	1,172,328
Increase (decrease) in unrestricted net assets	$5,996,735	$10,617,617	$(286,839)	$10,719,494	$7,887,124

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

None.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS"

None.

COMMENTS AND RECOMMENDATIONS

Comments:

1. Based on the results of the examination, no deviations from the Tennessee Insurance Guaranty Association Act (Tennessee Code Ann. § 56-12-101, *et seq.*) were found.

2. The Workers' Compensation Account component of unrestricted net assets indicates a negative balance in the amount of ($15,186,816) at December 31, 2011, due to the claim reserves established for this block of business which require claim payments to be made extending far into the foreseeable future. The Association did; however, exhibit a positive overall financial position due to the fact that there was a positive balance in the All Other Insurance Accounts component in the amount of $66,404,316. TENN. CODE ANN. § 56-12-105(d) requires for purpose of assessment and record keeping, the association shall be divided into the above mentioned two (2) separate accounts.

3. The most recent Workers' Compensation assessment was made in the amount of two percent (2%) of premium on October 13, 2005.

4. The most recent All Other assessment was made in the amount of one percent (1%) of premium on November 5, 2001.

Recommendations:

None.

TENNESSEE INSURANCE GUARANTY ASSOCIATION

1600 Division Street - Suite 680
Nashville, Tennessee 37203

Executive Secretary
W. D. Broemel

Telephone (615) 242-6839
Facsimile (615) 255-4960

Directors
Jerry A. Mayo, Chairman
HDI-Gerling America Insurance Co.
Steven C. Williams, Vice Chairman
State Volunteer Mutual Insurance Co.
Lorrie K. Brouse, Secretary
Allstate Insurance Co.
Jeff L. Shay
State Farm Insurance Companies
Matthew M. Scoggins, Jr.
Tennessee Farmers Insurance Cos.

May 14, 2013

James E. York, Jr., CFE, AES
Insurance Examinations Director
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Financial Condition Examination of Tennessee Insurance Guaranty Association

Dear Mr. York:

Please accept this as confirmation of the fact that the Tennessee Insurance Guaranty Association is in agreement with the report of examination and waives its right to a rebuttal.

I wanted also to express our appreciation for the courteous and professional way in which the examination was conducted.

Very truly yours,

David Broemel

WDB/rlc

cc: Ms. Ivi Niemann

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MAY 20 2013

Dept. of Commerce & Insurance
Company Examinations

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