



**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 17, 2007

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Mr. James Hathcock, General Manager  
Mississippi Workers' Compensation Assigned Risk Pool  
682 Towne Center Boulevard, Suite 102  
Ridgeland, MS 39157

**RE: Report of Examination as of December 31, 2005**

Dear Mr. Hathcock:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of the Mississippi Workers' Compensation Assigned Risk Pool has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

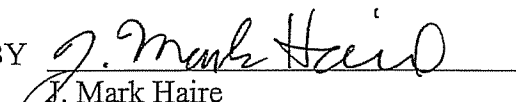
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department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

  
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 WORKERS' COMPENSATION  
          ASSIGNED RISK POOL**

**CAUSE NO. 07-5631**

**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. § 83-5-201 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. § 83-5-201 et seq. (Rev. 1999).

**II.**

That Mississippi Workers' Compensation Assigned Risk Pool was established by the Mississippi Legislature on January 1, 1993, to be the reinsurance mechanism for policies issued pursuant to the Plan.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Mississippi Workers' Compensation Assigned Risk Pool and appointed Mitch Rayborn, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about February 23, 2007, the draft Report of Examination concerning Mississippi Workers' Compensation Assigned Risk Pool for the period of January 1, 1993 through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Mitch Rayborn.

### V.

That on or about May 1, 2007, 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 or about May 31, 2007, and in response thereto, no revisions 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 and all relevant examiner work papers and the Company's rebuttal, that the Report of Examination of Mississippi Workers' Compensation Assigned Risk Pool, 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, Mississippi Workers' Compensation Assigned Risk Pool 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 Mississippi Workers' Compensation Assigned Risk Pool 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.

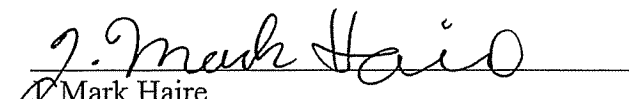
**SO ORDERED**, this the 17<sup>th</sup> day of July, 2007.

  
GEORGE DALE  
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 17<sup>th</sup> day of July, 2007, to:

**Mr. James Hathcock, General Manager  
Mississippi Workers' Compensation Assigned Risk Pool  
682 Towne Center Boulevard, Suite 102  
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

STATE OF MISSISSIPPI  
COUNTY OF HINDS

Mitch Rayborn, CFE, FLMI, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance of the State of Mississippi in the examination of Mississippi Workers' Compensation Assigned Risk Pool.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have prepared the examination work papers and examination report, and the examination of Mississippi Workers' Compensation Assigned Risk Pool as of December 31, 2005, was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

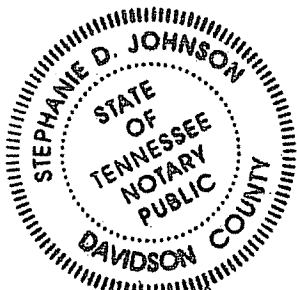
The affidavit says nothing further.

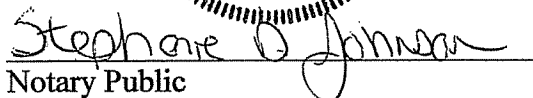


Mitch Rayborn, CFE, FLMI  
Examiner

Subscribed and sworn before me this 7th day of July, 2007.

(SEAL)



  
Notary Public

My commission expires 11/22/10.



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

## **MISSISSIPPI WORKERS' COMPENSATION ASSIGNED RISK POOL**

**682 Towne Center Boulevard  
Ridgeland, Mississippi 39157**

**As of December 31, 2005**

## TABLE OF CONTENTS

Salutation .....	1
Introduction.....	2
Scope of Examination .....	2
History of the Company.....	2
Management and Control.....	3
Membership .....	3
Advisory Board .....	3
Corporate Records .....	3
Fidelity Bond and Other Insurance.....	3
Territory and Plan of Operation.....	4
Reinsurance.....	4
Accounts and Records.....	5
Financial Statements .....	6
Introduction .....	6
Statement of Assets, Liabilities, and Members' Equity .....	7
Statement of Income.....	8
Cumulative Operations and Members' Equity by Policy Year .....	9
Reconciliation of Examination Adjustments to Members' Equity.....	10
Market Conduct Activities.....	11
Commitments and Contingencies .....	11
Comment and Recommendation.....	12
Acknowledgment .....	13





**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>

February 16, 2007

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

Dear Commissioner Dale:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2005, of the affairs and financial condition of:

**MISSISSIPPI WORKERS' COMPENSATION ASSIGNED RISK POOL**  
682 Towne Center Boulevard, Suite 102  
Ridgeland, Mississippi 39157

The examination of the Mississippi Workers' Compensation Assigned Risk Pool (the "Pool") was conducted in accordance with Mississippi Regulation 96-102 and was performed at the Ridgeland, Mississippi offices of Compensation Insurance Services ("CIS"), the Pool's administrator. The report of examination is herewith submitted for your review.

## **INTRODUCTION**

This examination was performed by examiners representing the Mississippi Insurance Department (“MID”) and covered Mississippi Workers' Compensation Assigned Risk Pool (“Pool”) operations and financial condition from inception through December 31, 2005, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

## **SCOPE OF EXAMINATION**

The examination of the Pool included a review of its operations and compliance with applicable laws, as well as the review of its financial statements. The Pool 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 and/or tested without exception being noted by the examiner.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

## **HISTORY OF THE COMPANY**

In 1992, the Mississippi legislature authorized the Mississippi Commissioner of Insurance (the “Commissioner”) to form the Mississippi Workers' Compensation Assigned Risk Plan (the “Plan”). The Plan’s purpose was to provide workers’ compensation insurance to employers in Mississippi that in good faith were entitled to insurance, but were unable to obtain such workers' compensation insurance in the voluntary market because of unusual conditions or circumstances. Pursuant to Miss. Code Ann. §71-3-111, the Commissioner established the Pool effective January 1, 1993 to be the reinsurance mechanism for policies issued pursuant to the Plan. The Pool was established as a non-profit, unincorporated association of member companies, for the purpose of providing reinsurance for all workers’ compensation residual market policies and to accomplish the equitable distribution of all underwriting profit and loss of the residual market policies to the members. All insurance companies licensed to write workers' compensation in Mississippi were required to be members of and participants in the Pool.

The Commissioner was authorized to contract for Plan and Pool administration. Since inception, the Plan’s administration has been contracted with the National Council of Compensation Insurance, Inc. (“NCCI”), and the Pool’s administration has been contracted with Compensation Insurance Services (“CIS”).

Two servicing carriers were issuing policies as of December 31, 2005. Each servicing carrier was authorized to issue workers' compensation insurance policies for those employers that apply

through the Plan's administrator for insurance in the residual market. The servicing carriers, in turn, reinsure all policy risks with the Pool. The reinsurance contracts between the Pool and the servicing carriers provide that the Pool will assume one hundred percent (100%) of the servicing carriers' risk of loss under the policies. Operations of the Pool are subject to fluctuation in the voluntary market and may experience significant variability in volume over a period of years.

## **MANAGEMENT AND CONTROL**

### **Membership**

Every insurance company authorized to write workers' compensation and employers' liability insurance in Mississippi is required to participate in the Plan through membership and participation in the Pool. Members are bound by the Pool's Governing Articles as a condition of their authority to transact workers' compensation and employers' liability insurance in Mississippi.

### **Advisory Board**

Pursuant to Mississippi Regulation 96-102, the Commissioner shall serve as the Director of the Pool. The Pool has an Advisory Board (the "Board") composed of seven (7) Members of the Pool. No more than three (3) Servicing Carriers shall serve on the Board at any time. The Commissioner and Pool Administrator shall serve as ex officio, nonvoting Members of the Board. As of December 31, 2005 the Board consisted of:

Frankie F. Box, Chair	EMC Companies
Cindy Sickler, Vice-Chair	LM Insurance Company
John A. Ecton	Capital City Insurance Company
Michael N. Horlock	Zurich North America
John Brad Little	St. Paul Travelers
John William Roberts	AmFed National Insurance Company
H. Duke Truby	Bituminous Insurance Companies

## **CORPORATE RECORDS**

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

## **FIDELITY BOND AND OTHER INSURANCE**

Pursuant to the Contract for Pool Administration with CIS, CIS maintained a Commercial Crime Policy which complied with the contract. The \$100,000 policy in force as of the examination date named the MWCARP as the Loss Payee.

## TERRITORY AND PLAN OF OPERATION

The Pool serves as the reinsurance mechanism for the Mississippi Workers' Compensation Assigned Risk Plan ("Plan") and provides for the equitable distribution of all underwriting profit or loss of the Plan to the Members. The purpose of the Plan is to provide for the assignment of Mississippi employers who are in good faith entitled to workers' compensation insurance, but who are unable to procure such insurance in a regular manner.

### REINSURANCE

#### Reinsurance Intermediary:

The Company used the services of Guy Carpenter & Company, Inc. ("Guy Carpenter"), a reinsurance intermediary, to place reinsurance with various reinsurers. Guy Carpenter was licensed and authorized by the Mississippi Insurance Department and had the authority to procure placement certificates from various reinsurers in the Pool's reinsurance ceded program.

#### Ceded Reinsurance Agreements

For the year ended December 31, 2005, the Company had the following specific excess reinsurance agreements in place:

Layer	Insurer	Part. %	Per Occurrence Limit	Per Occurrence Retention	Conditions/Limitations
1	American Re-Insurance Co.	100%	\$ 1,000,000	\$ 1,000,000	\$1M aggregate deductible. \$5M aggregate limit.
2	American Re-Insurance Co.	100%	\$ 2,000,000	\$ 3,000,000	
3	American Re-Insurance Co.	50%	\$ 5,000,000	\$ 5,000,000	
	Lloyd's Syndicate #2020	50%	\$ 5,000,000	\$ 5,000,000	
4	Endurance Specialty Ins Ltd.	35%	\$ 10,000,000	\$ 10,000,000	\$4M maximum any one life
	Renaissance Reinsurance Ltd.	20%	\$ 10,000,000	\$ 10,000,000	
	Aspen Insurance UK Ltd.	6%	\$ 10,000,000	\$ 10,000,000	
	Various Lloyds Syndicates	39%	\$ 10,000,000	\$ 10,000,000	

The Company did not carry aggregate excess insurance.

## ACCOUNTS AND RECORDS

The 2005 trial balance of the Pool's accounts was reconciled to the balance sheet of the Pool's financial statements filed with the MID, with no material exceptions noted. The Pool was audited annually by an independent CPA firm.

It was noted that the Pool did not have a custodial agreement with Morgan Keegan & Company, Inc. It is recommended that the Pool obtain custodial agreement with Morgan Keegan & Company, Inc. to comply with all provisions set forth by the NAIC *Financial Condition Examiners Handbook*.

## FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, and Members' Equity as of December 31, 2005, a Statement of Income for year ended December 31, 2005, a Reconciliation of Members' Equity since inception, and a Reconciliation of Examination Adjustments to Members' Equity at December 31, 2005.

**STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS EQUITY  
DECEMBER 31, 2005**

**ASSETS**

Bonds	\$ 51,264,273
Common stocks	1,242,537
Cash, cash equivalents and short-term investments	1,293,261
Investment income due and accrued	650,649
Reinsurance premiums due from servicing carriers	4,965,160
Amounts receivable from reinsurers	<u>347,371</u>
<b>Total Assets</b>	<b><u>\$ 59,763,251</u></b>

**LIABILITIES AND MEMBERS EQUITY**

Losses	\$ 34,210,959
Unearned premiums	8,634,839
Uncollectible premiums	905,530
Reinsurance due to servicing carriers	4,051,323
Accounts payable	<u>17,831</u>
<b>Total Liabilities</b>	<b><u>47,820,482</u></b>
Members' equity	<u>11,942,769</u>
<b>Total Liabilities and Members Equity</b>	<b><u>\$ 59,763,251</u></b>

**STATEMENT OF INCOME  
FOR YEAR ENDED DECEMBER 31, 2005**

Premiums written	\$ 24,972,222
Ceded premiums	(1,278,402)
Change in unearned premiums	<u>(2,074,700)</u>
<b>Premiums earned</b>	<u>20,084,706</u>
Losses paid	11,530,243
Change in case outstanding losses	1,585,168
Change in IBNR	607,079
Losses ceded	(1,100,654)
Discount of unpaid losses	<u>(695,209)</u>
<b>Net losses incurred</b>	<u>11,926,627</u>
<b>Gross underwriting gain (loss)</b>	<u>8,158,079</u>
<b>Less:</b>	
Uncollected premiums	1,498,000
Servicing carrier allowance (SCA)	3,799,491
SCA on uncollected premiums	145,561
Producer fees	909,616
Allocated loss adjustment expense reimbursed	1,168,975
Other expenses allowed	78,679
Administrative expenses	<u>726,910</u>
<b>Total expenses</b>	<u>8,327,232</u>
<b>Net underwriting gain (loss)</b>	<u>(169,153)</u>
Investment and other income	<u>2,612,868</u>
<b>Net gain (loss)</b>	<u>\$ 2,443,715</u>



**Cumulative Operations and Members' Equity by Policy Year  
For Year Ended December 31, 2005**

Policy Year	Reinsurance		Outstanding Loss Reserve	Total Incurred Losses	Other Underwriting Expenses	Net Underwriting		Investment Income	Net Income (Loss)	Distributions To Members	Member's Equity (Deficit)
	Premiums Earned	Losses Paid				Income	(Loss)				
1993	\$ 100,134,812	\$ 48,669,485	\$ 1,615,028	\$ 50,284,513	\$ 37,181,217	\$ 12,669,082	\$ 13,537,629	\$ 26,206,711	\$ 23,850,000	\$ 2,356,711	
1994	73,991,566	31,320,361	1,621,895	32,942,256	28,250,588	12,798,722	10,041,614	22,840,336	21,650,000	1,190,336	
1995	40,924,151	21,279,538	2,233,261	23,512,799	14,934,129	2,477,223	5,959,199	8,436,422	6,250,000	2,186,422	
1996	24,097,251	13,372,264	1,309,625	14,681,889	9,256,825	158,537	2,958,001	3,116,538	2,400,000	716,538	
1997	14,706,748	9,158,267	734,547	9,892,814	5,412,127	(598,193)	1,545,235	947,042	250,000	697,042	
1998	8,987,473	4,024,039	99,447	4,123,486	3,604,801	1,259,186	1,060,545	2,319,731	1,600,000	719,731	
1999	5,609,567	3,513,012	409,996	3,923,008	2,236,895	(550,336)	477,350	(72,986)	-	(72,986)	
2000	6,537,949	3,688,180	622,104	4,310,284	3,159,134	(931,469)	423,048	(508,421)	-	(508,421)	
2001	14,049,744	7,981,507	1,679,994	9,661,501	5,997,597	(1,609,354)	947,229	(662,125)	500,000	(1,162,125)	
2002	21,246,844	8,091,320	2,933,784	11,025,104	7,359,951	2,861,789	1,554,907	4,416,696	-	4,416,696	
2003	23,326,267	7,757,246	6,553,677	14,310,923	7,491,864	1,523,480	1,421,653	2,945,133	-	2,945,133	
2004	20,168,090	5,858,390	7,385,648	13,244,038	6,502,844	421,208	717,856	1,139,064	-	1,139,064	
2005	10,985,601	956,656	7,011,953	7,968,609	5,883,603	(2,866,611)	185,239	(2,681,372)	-	(2,681,372)	
	364,766,063	165,670,265	34,210,959	199,881,224	137,271,575	27,613,264	40,829,505	68,442,769	56,500,000	11,942,769	
	342,181,357	154,540,251	30,914,346	185,454,597	128,944,345	27,782,415	38,216,638	65,999,053	56,500,000	9,499,053	
	\$ 22,584,706	\$ 11,130,014	\$ 3,296,613	\$ 14,426,627	\$ 8,327,230	\$ (109,151)	\$ 2,612,867	\$ 2,443,716	\$ -	\$ 2,443,716	

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO MEMBERS' EQUITY  
DECEMBER 31, 2005**

As a result of this examination, there have been no adjustments made to the admitted asset, liability, and member's equity reported by the Pool in the 2005 financial statement. The members' equity reported by the Company of \$11,942,769 is accepted as reasonably stated for purposes of the balance sheet per the examination.

## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on claims, claims administration, policy issuance, and underwriting performed by the servicing carriers. A Servicing Carrier Performance Review is performed annually or bi-annually by CIS on the servicing carriers to review the activities for compliance with applicable performance standards.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

The Pool is involved vicariously through indemnity of its servicing carriers in various claims and litigation incidental to its business. Although the outcome of such matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Pool's financial position.

## COMMENT AND RECOMMENDATION

1. It was noted that the Pool did not have a custodial agreement with Morgan Keegan & Company, Inc. It is recommended that the Pool obtain custodial agreement with Morgan Keegan & Company, Inc. to comply with all provisions set forth by the NAIC *Financial Condition Examiners Handbook*. (Page 4)

## ACKNOWLEDGMENT

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

Examiner:	Amy M. Deer
Automation:	J. Scott Joyner, AES, CISA
Examiner-in-charge:	Mitch Rayborn, CFE, FLMI

The courteous cooperation of the management of CIS and the servicing carriers assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

  
\_\_\_\_\_  
Mitch Rayborn, CFE, FLMI  
Examiner-in-charge