



THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE

MASSACHUSETTS INSURERS INSOLVENCY FUND

AS OF

December 31, 2010

EMPLOYER IDENTIFICATION NUMBER 23-7304306

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Period Covered by Examination	2
Examination Procedure Employed	2
Status of Findings from the Prior Examination	3
History	3
General	3
Capital Stock	6
Dividends to Stockholders	6
Assessments and Refunds to Members	6
.....	
Management	7
Annual Meeting	7
Board of Directors	7
Committee of the Board of Directors	8
Officers	8
Conflict of Interest Procedures	8
Corporate Records	8
Fidelity Bonds and Other Insurance	9
Pension and Insurance Plans	9
.....	
Operations and Related Practices	9
Plan of Operation	9
Claims Handling	11
Complaints	11
.....	
Reinsurance	11
Accounts and Records	12
Financial Statement	12
Statement of Financial Position - Modified Cash Basis	14
Statement of Activities and Changes in Fund Balance - Modified Cash Basis	15
.....	
Acknowledgement	16



COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • <http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURPHY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

June 15, 2011

The Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Commissioner Murphy:

Pursuant to your instructions and in accordance with Section 10 of Massachusetts General Laws Chapter 175D, an examination has been made of the financial condition and affairs of

MASSACHUSETTS INSURERS INSOLVENCY FUND

Boston, Massachusetts

at its office located at One Bowdoin Square, Boston, Massachusetts 02114. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered By Examination

Massachusetts Insurers Insolvency Fund, hereinafter referred to as "MIIF", was last examined as of December 31, 2000, by the Massachusetts Division of Insurance ("the Division"). The Division made the present examination by authority of Chapters 175 and 175D of Massachusetts General Laws ("MGL"). Pursuant to Section 10 of MGL Chapter 175D, MIIF shall be deemed an insurer for purposes of examination and regulation by the Commissioner of Insurance. The present examination covers the period from December 31, 2000, to December 31, 2010, including any material transactions or events occurring after the latter date. In the Report of Examination, unless it is specifically noted otherwise, references to accounts, activities, and transactions of MIIF are as of December 31, 2010.

Examination Procedure Employed

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook.

In addition to a review of the financial condition of MIIF and verification of information set forth in its filed annual reports, the examination included a review of MIIF's general operations, corporate records, internal controls, conflicts of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, and treatment of policyholders and claimants, and other pertinent matters to provide reasonable assurance that MIIF was in compliance with applicable laws, rules, and regulations.

In planning and conducting the examination, consideration was given to the concepts of materiality and risk. Examination efforts were directed accordingly. The transactions of MIIF were examined to the extent deemed appropriate and sampling methods were used to provide conclusions within the limits of reasonable accuracy.

MIIF is audited annually by a firm of independent certified public accountants. Over the period of examination, MIIF was audited by Ernst & Young LLP ("E&Y") for the years ended December 31, 2000 through 2003, and by PricewaterhouseCoopers LLP ("PwC") for the years ended December 31, 2004 through 2010. The respective firms expressed unqualified opinions on MIIF's financial statements for the years ended December 31, 2003 through 2010 after MIIF changed the accounting basis from the modified accrual basis to modified cash basis. An explanatory qualification appeared for the year ended December 31, 2001 and 2002 when MIIF prepared the audited financial statements on the modified accrual basis. The examination reviewed and used PwC's workpapers to the extent deemed appropriate and effective.

Status Of Findings From The Prior Examination

This examination included a review to verify the current status of any exception conditions noted in the prior Report of Examination. The prior examination was made as of December 31, 2000, and the Report of that prior examination did not contain any comments or recommendations.

HISTORY

General

MGL Chapter 175D (enacted as Chapter 261 of the 1970 Acts of the Legislature) created a non-profit, unincorporated, legal entity to be known as the Massachusetts Insurers Insolvency Fund and consisting of all insurers licensed to transact certain kinds of insurance in the Commonwealth of Massachusetts. According to Section Two of said Chapter, the enabling legislation of MIIF shall apply to all kinds of direct insurance, except life, accident and health, title, surety, disability credit, mortgage guaranty, financial guaranty or other forms of insurance offering protection against investment risks, insurance warranties of any type of service contracts, and ocean marine insurance. Subsequently, Section 1, Chapter 302 of the 1988 Acts of the Legislature and Section 3, Chapter 318 of the 1992 Acts of the Legislature amended MGL Chapter 175D by extending it to apply to claims for compensation or other benefits which arise out of and are within the coverage of a workers' compensation insurance policy.

On August 2, 1972, MIIF, after nomination of its initial Board of Directors, held an organization meeting in Boston, Massachusetts, and adopted the Plan of Operation which was submitted to and approved by the Commissioner of Insurance August 24, 1972.

On November 1, 1972, MIIF entered into an administrative service agreement with Insurance Services Office ["ISO"] under which ISO undertook to perform, at cost to MIIF, such administrative, clerical, and mailing services as MIIF may require to fulfill its statutory functions.

In July 1974, a member insurer, domiciled in Massachusetts, was placed in liquidation. Thereafter, in February 1975, MIIF's Board of Directors recognized the need to have a full-time manager supervising the daily operations of MIIF. The Board, with the acquiescence of ISO, hired and placed the manager on the ISO payroll for the only purpose of overseeing MIIF's activities.

The handling and disposition of covered claims was administered by willing member insurers' claim facilities until the latter part of 1976, when MIIF's Board of Directors authorized the establishment of a claims office to manage the handling and disposition of several thousand claim files.

On November 12, 1980, MIIF and the similar organizations of each of the other five New England states (all six entities forming the New England Association of Insurance Guaranty Funds) became charter members of Guaranty Fund Management Services® ["GFMS®"] by adopting and subscribing to its Articles of Agreement. Two more associations later became

signatories to the GFMS Articles of Agreement: District of Columbia Insurance Guaranty Association effective January 1, 1982, and Virginia Property and Casualty Insurance Guaranty Association effective January 1, 1985.

GFMS officially began operations January 1, 1981, as a voluntary, non-profit, unincorporated association. GFMS furnishes a mechanism for assuring the maintenance of management and claims supervisory services to insurance guaranty associations and insolvency funds created by statute. It manages member funds in the discharge of their statutory responsibility to handle promptly and efficiently the valid, covered claims against insolvent insurers.

As of December 31, 2010, GFMS was composed of and provided services to the following member funds and associations: Connecticut Insurance Guaranty Association, District of Columbia Insurance Guaranty Association, Maine Insurance Guaranty Association, Massachusetts Insurers Insolvency Fund, New Hampshire Insurance Guaranty Association, Rhode Island Property and Casualty Insurance Guaranty Association, Vermont Property and Casualty Insurance Guaranty Association, and Virginia Property and Casualty Insurance Guaranty Association. Through the year 2010, GFMS has been involved in handling one hundred thirty insolvencies on behalf of all of these state fund or associations.

From its inception through December 31, 2010, MIIF or GFMS on behalf of MIIF has been involved in handling the insolvencies of the following sixty companies:

<u>Name of Company :</u>	<u>Declared Insolvent</u>	<u>State of Domicile</u>
* Rockland Mutual Insurance Company	1974	Massachusetts
* Associated Merchants Mutual Insurance Company	1975	Massachusetts
* Summit Insurance Company	1975	New York
* Interstate Insurance Company	1975	New Jersey
* Empire Mutual Insurance Company	1978	New York
* Consolidated Mutual Insurance Company	1979	New York
* Reserve Insurance Company	1979	Illinois
* American Reserve Insurance Company	1980	Rhode Island
* Cosmopolitan Mutual Insurance Company	1981	New York
* Proprietors' Insurance Company	1984	Ohio
* Excalibur Insurance Company	1984	Texas
* Ideal Mutual Fire Insurance Company	1985	New York
* Union Indemnity Insurance Company	1985	New York
* American Fidelity Fire Insurance Company	1985	New York
* Transit Casualty Insurance Company	1986	Missouri
* Carriers Insurance Company	1986	Iowa
* Midland Insurance Company	1986	New York
* The Great Global Assurance Company	1986	Arizona
* American Druggists' Insurance Company	1986	Ohio
* Allied Fidelity Insurance Company	1986	Indiana
* Mission Insurance Company	1987	California
* Mission National Insurance Company	1987	California
* Enterprise Insurance Company	1987	California
* Integrity Insurance Company	1987	New Jersey
* American Mutual Liability Insurance Company	1989	Massachusetts

Massachusetts Insurers Insolvency Fund, 2010 DOI Examination

American Mutual Insurance Company of Boston	1989	Massachusetts
* Equity General Insurance Company	1989	Illinois
American Universal Insurance Company	1991	Rhode Island
* Edison Insurance Company	1991	Illinois
Western Employers Insurance Company	1991	California
* M C A Insurance Company	1992	Oklahoma
Warwick Insurance Company	1993	New Jersey
* Millers National Insurance Company	1993	Illinois
Employers Casualty Company	1994	Texas
* Covenant Mutual Insurance Company	1994	Connecticut
* Premier Alliance Insurance Company	1994	California
United Community Insurance Company	1995	New York
Abington Mutual Insurance Company	1995	Massachusetts
* American Eagle Insurance Company	1997	Texas
Trust Insurance Company	2000	Massachusetts
* Hamilton Insurance Company	2000	California
* Commercial Compensation Casualty Company	2000	California
New England Fidelity Insurance Co.	2000	Massachusetts
Credit General Insurance Company	2001	Ohio
* Acceleration National Insurance Company	2001	Ohio
Reliance Insurance Company	2001	Pennsylvania
PHICO Insurance Company	2002	Pennsylvania
Home Insurance Company	2003	New Hampshire
Fremont Indemnity Company	2003	California
Legion Insurance Company	2003	Pennsylvania
Villanova Insurance Company	2003	Pennsylvania
Casualty Reciprocal Exchange	2004	Missouri
* Consolidated American Insurance Company	2005	South Carolina
Vesta Fire Insurance Corporation	2006	Texas
Shelby Insurance Company	2006	Texas
Shelby Casualty Insurance Company	2006	Texas
MIIX Insurance Company	2008	New Jersey
* Newark Insurance Company	2008	New Jersey
Eastern Casualty Insurance Company	2010	Massachusetts
* Insurance Corporation of New York	2010	New York

* Designates insolvencies considered to be closed as of December 31, 2010.

Subsequent to the date of examination, two additional insolvencies were reported to MIIF. A court order for the liquidation of Atlantic Mutual Insurance Company and Centennial Insurance Company was declared on April 27, 2011, in New York.

Capital Stock

MIIF is a statutorily created, unincorporated, legal entity defined by its enabling legislation to be non-profit. It has no capital stock.

Dividends To Stockholders

Because MIIF is a statutorily created, non-profit, unincorporated entity, it has neither stock nor stockholders and it does not make any stock-based distributions.

Assessments And Refunds To Members

Section 5 of MGL Chapter 175D specifies that MIIF shall assess insurers the amounts necessary to pay its obligations and the expenses of handling covered claims and to pay other permissible expenses. By Section 12 of the same Chapter, MIIF's Board of Directors may at the end of any calendar year order that the amount by which MIIF's assets exceed liabilities be returned to the insurers in proportion to their respective contributions as assessed or refunds. For the years under examination, the aggregate amounts of these assessments and refunds were as follows:

Year	Total Assessment	Total Refund	Net Assessment or (Refund)
2001	25,000,000	-	25,000,000
2002	37,000,000	-	37,000,000
2003	65,000,000	4,055,170	60,944,830
2004	45,000,000	-	45,000,000
2005	17,000,000	23,580,210	(6,580,210)
2006	16,450,000	10,866,748	5,383,252
2007	12,120,000	16,618,300	(4,468,300)
2008	-	804,928	(804,928)
2009	-	2,260,791	(2,260,791)
2010	18,000,000	14,383,964	3,616,036

Management

Annual Meeting

According to Article Two of MIIF's Plan of Operation, which by Section 6 of MGL Chapter 175D was required to be filed with the Commissioner of Insurance, the annual meeting of the Board of Directors shall be held at the office of Commissioner in October, unless the Board upon proper notice designates some other date or place. A review of the minutes of the Board of Directors revealed that annual meetings were held in October of each year throughout the examination period.

Board of Directors

By Section 3 of MGL Chapter 175D, MIIF is to perform its functions under a plan of operation and is to exercise its powers through a Board of Directors. Section Four of the enabling legislation specifies that the Board of Directors shall consist of not less than five nor more than nine persons and that the members of the Board shall be nominated by the MIIF members subject to the approval of the Commissioner of Insurance, provided that at least one member of the Board shall be appointed by the Commissioner as a representative of insurance producers.

According to Article Two of MIIF's Plan of Operation, the Board of Directors shall consist of nine member insurance companies. The following are the nine member insurers and their respective designated Representatives with corporate titles who were serving on MIIF's Board of Directors as of December 31, 2010:

<u>Member Insurer:</u>	<u>Representative:</u>	<u>Company Position:</u>
Quincy Mutual Fire Insurance Company Quincy, Massachusetts	* James J. Moran Jr. Chairman of the Board of MIIF	Senior Vice President/ General Counsel
Hanover Insurance Company Worcester, Massachusetts	* William Cahill Vice Chairman of the Board	Vice President and Group Counsel
Liberty Mutual Insurance Company Boston, Massachusetts	* Joanne Locke	Asst. Vice President, Sr. Corp. Counsel, Manager, Coverage Group
Safety Insurance Company Boston, Massachusetts	* William Begley, Jr.	Vice President, Treasurer and Chief Financial Officer
Metropolitan Property and Casualty Insurance Company Warwick, Rhode Island	Maura Travers	Assistant General Counsel and Secretary
Premier Insurance Company Of Massachusetts Worcester, Massachusetts	Susan K. Scott	Sr. Vice President and General Counsel
Holyoke Mutual Insurance Company Salem, Massachusetts	* Diane Choate	Compliance Analyst

Massachusetts Insurers Insolvency Fund, 2010 DOI Examination

Arbella Mutual Insurance Company
Quincy, Massachusetts

* Eileen Currie

Vice President of
Commercial Lines

Agent Representative

Douglas C. Ryder.

* Denotes a Member Insurer newly elected to the Board since the prior examination.

Committee of the Board of Directors

The only authorized and standing committee of the Board of Directors is the Audit Committee. According to Paragraph C, Article Four of MIIF's Plan of Operation, the Board shall annually appoint an Audit Committee composed of the three member insurers. Such Committee shall see to the proper auditing of all books and records of MIIF and shall report its findings to the Board.

At December 31, 2010, the members of the Audit Committee were: Safety Insurance Company, Boston, MA; Providence Mutual Fire Insurance Company, Providence, Rhode Island; and Patrons Mutual Insurance Company, Glastonbury, Connecticut.

Officers

Daily activities of MIIF are administered by the staff and officers of GFMS according to the Articles of Agreement. At the Annual Meeting of MIIF's Board of Directors on October 19, 2010, the following were elected to the listed positions.

* James J. Moran, Jr.	Chairman
* William Cahill	Vice Chairman
Paul M. Gulko,	Manager
James Winkovetz	Claims Manager
Kathleen M. Savin	Treasurer

* Denotes an Officer newly elected to the
indicated position since the prior examination.

Conflict of Interest Procedure

GFMS has in place a conflict of interest policy to which all of its employees, members of the Board of Directors and Committees are required to adhere. For the examination, disclosure statements for the members of the Board of Directors were reviewed. It is noted that the disclosure statements signed by the employees are reviewed and counter-signed by Mr. Paul M. Gulko, President of GFMS.

Corporate Records

Available minutes of the meetings of the Board of Directors held from the date of the last examination through December 31, 2010, were reviewed. For that period, votes and authorizations were found to be in order and the records indicated that MIIF appeared to be

conducting its affairs in compliance with its Plan of Operation and the Laws of the Commonwealth of Massachusetts.

FIDELITY BONDS AND OTHER INSURANCE

An employee dishonesty coverage form (\$2,000,000 limit of insurance with \$10,000 deductible amount) identifies as named insured GFMS, the Massachusetts Insurers Insolvency Fund, and each of the other seven member associations; it specifically includes non-compensated directors and officers as employees. Losses, if any, in excess of the covered limit will be assessed among member insurers. Since its inception, Massachusetts Insurers Insolvency Fund has not encountered any such situations.

MIIF has directors and officers liability coverage in place on its Directors and Officers (\$1,000,000 separate limit of liability with \$5,000 deductible). Section 14 of the Massachusetts General Laws Chapter 175D stipulates there shall be no liability on the part of and no cause of action against insurers, MIIF, or the agents of MIIF for any statement made by them in any reports or recommendations issued by MIIF.

PENSION AND INSURANCE PLANS

MIIF does not have any direct employees. Staffing is furnished to MIIF through a management services agreement with GFMS. Employee benefits provided by GFMS include a contributory group insurance program with life, medical, dental, and accidental death and dismemberment insurance available voluntarily; a salary continuance plan; long-term disability benefits; a non-contributory retirement program; and an employee savings plan (401k Plan) with limited matching contributions from GFMS.

OPERATIONS AND RELATED PRACTICES

Plan of Operation

Generally, the purpose of MIIF is to provide a means for the payment of covered claims under certain insurance policies, to avoid financial loss to Massachusetts claimants or insureds due to insurer insolvencies, to assist in the detection and prevention of insurer insolvencies, and to provide a mechanism for assessing the cost of such protection among licensed insurers.

More specifically, some of MIIF's powers and duties by statute include the following:

- MIIF shall be obligated to the extent of covered claims against an insolvent insurer, but only up to \$300,000 on each covered claim unless it is a claim for compensation or other benefits under a workers' compensation insurance policy where the limits of the policy govern. A covered claim is an unpaid claim, including one for unearned premiums, which is within the coverage of an insurance policy to which MGL

Chapter 175D applies, issued by an insurer, if the insurer becomes insolvent and either (a) the claimant or insured is a Massachusetts resident, or (b) the property from which the claim arises is permanently located in Massachusetts. MIIF shall have all rights, duties, and obligations of an insolvent insurer to the extent of its obligation on covered claims.

- MIIF shall assess insurers, which are licensed in Massachusetts to transact any kind of insurance to which MGL Chapter 175D applies, the amounts necessary to pay the obligations of MIIF and the expenses of handling covered claims subsequent to an insolvency and certain other permissible expenses.
- MIIF shall investigate claims brought against MIIF and adjust, compromise, settle, and pay covered claims to the extent of MIIF's obligations and shall deny all other claims. It shall pay claims in any order which it may deem reasonable, including the payment of claims as such are received from claimants or in groups or categories of claims.
- MIIF shall handle claims through its employees or through one or more insurers designated as servicing facilities. It shall reimburse each servicing facility for obligations of MIIF paid by the facility and for expenses incurred by the facility while handling claims on behalf of MIIF and shall pay the other expenses of MIIF incurred under MGL Chapter 175D.
- MIIF may employ such personnel as are necessary to handle claims and perform other duties of MIIF.
- MIIF may appear in, defend, and appeal any action on a claim brought against MIIF.
- MIIF may sue or be sued.
- MIIF may borrow monies necessary to carry out the purposes of MGL Chapter 175D.
- MIIF may request the Commissioner to order an examination of any insurer when a majority of the board of directors in good faith believes the insurer to be in a financial condition hazardous to the policyholders or the public.
- MIIF may make recommendations for the detection and prevention of insurer insolvencies. It may also make reports and recommendations to the Commissioner upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any insurer.

MIIF raises money via assessments and recoveries to the extent needed to fulfill its obligations. It operates on a post-insolvency basis. Upon declaration by a court of competent jurisdiction that a covered company has become insolvent, MIIF assesses its member insurers an initial estimated amount to cover the anticipated claim expenses of that insolvency. Any subsequent recoveries from the insolvent company, such as early access recoveries or dividend distributions, are recognized in later assessments or refunds to MIIF's member insurers.

Item c of Paragraph 1, Section Five of MGL Chapter 175D stipulates the assessments of each insurer shall be in the proportion that each insurer's direct premiums written in Massachusetts for the calendar year preceding the assessment bears to all insurers' direct premiums written in Massachusetts for the calendar year preceding the assessment. No insurer may be assessed in any year an amount greater than two percent of that insurer's direct written premiums for the calendar year preceding the assessment. MIIF may exempt or defer, in whole or in part, the assessment of any insurer if the assessment would cause the insurer's financial statement to reflect amounts of capital and surplus less than the minimum amounts required for a certificate

of authority by any jurisdiction in which the insurer is authorized to transact insurance, provided that during the period of deferment, no dividends shall be paid by such insurer to shareholders or to policyholders. Deferred assessments shall be paid when the payment will not reduce capital or surplus below required minimums.

The Massachusetts statute creating MIIF was patterned after the model adopted in 1969 by the National Association of Insurance Commissioners. However, the Massachusetts law differs from that enacted by other states in two significant respects:

1. All claims are grouped in a single account with assessments levied against member insurers based on their percentage share of writings for all covered lines. Other state funds sort claims into three distinct accounts (one for automobile liability, one for workers' compensation benefits, and one for all other covered lines) and levy assessments among their member insurers based on proportionate writings within each of the three categories.
2. Claims were not subject to a deductible.

Claims Handling

Subject to applicable statutory limitations, MIIF is obligated to pay covered claims only to the extent to which the insolvent insurer would have been liable to pay under the terms and conditions of the insurance policy itself. The amount payable by MIIF must be offset or reduced by the amount of any recovery from solvent insurers or guaranty funds of other jurisdictions. Those seeking payment from MIIF must exhaust all other applicable coverages with solvent insurance companies before receiving benefits from MIIF. All claim payments are made on checks of MIIF while GFMS, as the management and claims supervisory association for MIIF, performs the functional tasks of the payment of covered claims and claim expenses.

To evaluate the claims handling process, a number of claims were reviewed. The sampled claims were found to be processed accurately in a timely and professional manner; data was recorded correctly by claim insolvency, and state fund. No errors or exceptions were detected.

Complaints

For the years 2009 through 2010, very few complaints were received and recorded. The few complaints recorded by MIIF for the examination period were reviewed. It was found that the complaints were processed appropriately.

REINSURANCE

MIIF does not write premium therefore, does not have a reinsurance program. As a processor of claims, however, MIIF reports claim amounts it pays on behalf of each insolvency to the respective court appointed liquidators who then seek to recover from reinsurance companies the amounts owed by reinsurers to the particular insolvent insurance companies. MIIF thus becomes a creditor to the various liquidators to the extent of such recovered amounts.

ACCOUNTS AND RECORDS

MIIF's records, ledgers and accounts primarily are maintained using computer systems. For the examination, MIIF completed the NAIC questionnaire for evaluation of controls in information systems. MIIF has a disaster recovery plan and arrangements for off-premises storage of back-up records which may be needed to provide for the continuity of business operations in the event of a national emergency.

On behalf of MIIF and the other member guaranty associations, the officers of GFMS are deeply involved in the direction of daily work activities and in the oversight of record production and maintenance. All checks are prepared with management authorization and appropriate signatures are required. Further, a review of the independent certified public accountant's workpapers on the subject of internal controls at GFMS revealed no material weaknesses or adverse comments. Based upon the examination work performed and with reliance on work performed by MIIF's independent certified public accounting firm, the examination concurs with the conclusions reached by the certified public accountants in regard to MIIF's internal control environment.

MIIF has a custodial and safekeeping agreement with a financial institution to provide indemnification for loss of any securities by the bank. MIIF retains the financial institution as purchasing agent for the securities in its investment portfolio consisting of issues of primarily fixed income; no physical securities are actually held in custody by the financial institution.

FINANCIAL STATEMENT

Until 2003, MIIF had maintained its records and prepared its financial statements on the modified accrual basis of accounting, as recommended by the National Conference of Insurance Guaranty Funds ("NCIGF"). Under this method, revenue is recognized when earned rather than when received, and expenses are recognized when incurred rather than when paid. All accrual basis items except for incurred but not reported claim liabilities are recognized; amounts related to assessments receivable, declared early access distributions, and case basis loss and loss adjustment expense reserves have been recorded.

In 2003, MIIF changed from the modified accrual basis method of accounting to a modified cash basis method of accounting, which also is recognized by the NCIGF. Under this latter method, revenue is recognized when earned rather than when received, and expenses are recognized when incurred rather than when paid. All accrual basis items except for claims liabilities are recognized; amounts related to assessments receivable and declared early access distributions have been recorded.

The trial balance was traced through the general ledger and supporting records to the 2010 Annual Report; no exceptions were noted. The following pages present Statements of Financial

Massachusetts Insurers Insolvency Fund, 2010 DOI Examination

Position and Statements of Activities and Changes in Fund Balance as determined by the examination, showing the financial condition of Massachusetts Insurers Insolvency Fund as of December 31, 2010, on a modified-cash basis method of accounting.

Statements of Financial Position -- Modified-Cash Basis
As of December 31, 2010

Statements of Activities and Changes in Fund Balance -- Modified-Cash Basis
For the Year Ended December 31, 2010

For Informational Purposes Only

STATEMENT OF FINANCIAL POSITION
As of December 31, 2010

	Per M. I. I. F.	Examination Changes	Notes	Per Examination
<u>Assets</u>				
Cash and cash equivalents	\$ 60,374,060	\$ 0		\$ 60,374,060
Assessments receivable	70,849			70,849
Investments at market value	72,544,665			72,544,665
Accrued interest	721,906			721,906
Other	660,000			660,000
Total Assets	<u>\$ 134,371,480</u>	<u>\$ 0</u>		<u>\$ 134,371,480</u>
<u>Liabilities</u>				
Accounts payable	\$ 472,639	\$ 0		\$ 472,639
Refunds payable	19,915			19,915
Total Liabilities	<u>492,554</u>	<u>0</u>		<u>492,554</u>
Fund balance	133,878,926			133,878,926
Total Liabilities and Fund Balance	<u>\$134,371,480</u>	<u>\$ 0</u>		<u>\$134,371,480</u>

STATEMENT OF ACTIVITIES AND CHANGES IN FUND BALANCE
For The Year Ended December 31, 2010

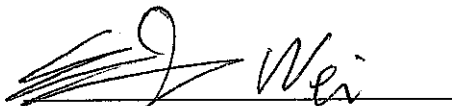
	Per M. I. I. F.	Examination Changes	Notes	Per Examination
<u>Revenues</u>				
Members' insolvency assessments	\$ 18,103,749	\$ 0		\$ 18,103,749
Insolvency recoveries	28,546,131			28,546,131
Investment income	2,887,555			2,887,555
Total Revenue	<u>\$49,537,435</u>	<u>\$ 0</u>		<u>\$49,537,435</u>
<u>Expenses</u>				
Loss and loss adjustment expense	\$ 9,639,360	\$ 0		\$ 9,639,360
Members refunded	14,219,984			14,219,984
Administrative expenses	2,851,493			2,851,493
Total Expenses	<u>26,710,837</u>	<u>0</u>		<u>26,710,837</u>
Excess of revenues over expenses	22,826,598			22,826,598
Change in net unrealized gains on investments	75,532			75,532
Surplus (Deficit)	<u>\$22,902,130</u>	<u>\$ 0</u>		<u>\$22,902,130</u>
<u>Fund Balance</u>				
Balance at beginning of year	\$ 110,976,796	\$ 0		\$ 110,976,796
Surplus	22,902,130	0		22,902,130
Balance at end of year	<u>\$ 133,878,926</u>	<u>\$ 0</u>		<u>\$ 133,878,926</u>

ACKNOWLEDGMENT

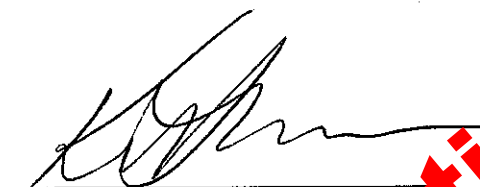
The undersigned examiners gratefully acknowledge the participation of Mr. Brian Knowlton, Insurance Examiner II of the Massachusetts Division of Insurance; in this examination.

The undersigned also express their appreciation for the courteous cooperation of the officers and employees of the Massachusetts Insurers Insolvency Fund and Guaranty Fund Management Services throughout the course of the examination.

Respectfully submitted,



Guangping Wei, AFE
Massachusetts Division of Insurance
Examiner-in-Charge



Kenneth Brenner, CPA, CFE
Massachusetts Division of Insurance
Supervising Examiner