

Louisiana Insurance Guaranty Association

2004
Annual Report

March 30, 2005

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Our Mission

To pay covered claims of insolvent property and casualty insurance companies in a prompt, courteous and caring manner at a fair and equitable cost, and also aid the Insurance Department in the detection and prevention of insurer insolvencies.

Board of Directors

2004

Ms. Ann Metrailler
Chairperson

Louisiana Farm Bureau Mutual Insurance
National Association of Independent Insurers

Mr. Terrence Hardin
Secretary

State Farm Mutual Automobile Insurance Co.
National Association of Mutual Insurance Cos.

Mr. W. Jay Luneau
Treasurer

Appointee of the Speaker of the House

Mr. James Davison

Appointee of the Commissioner of Insurance
as a Consumer Representative

Mr. J.E. Brignac, Jr.

Appointee of the President of the Senate

Mr. Michael T. Gray

The Gray Insurance Company

Ms. Margret L. Edwards

Appointee of the Commissioner of Insurance
as a Consumer Representative

Mr. Stephen C. Schrempp

National Automotive Insurance Company
Louisiana Fire and Casualty Insurance Cos.

Mr. Aubrey Temple

Louisiana Workers' Compensation Corporation

Executive Staff

DESIREE WORSLEY

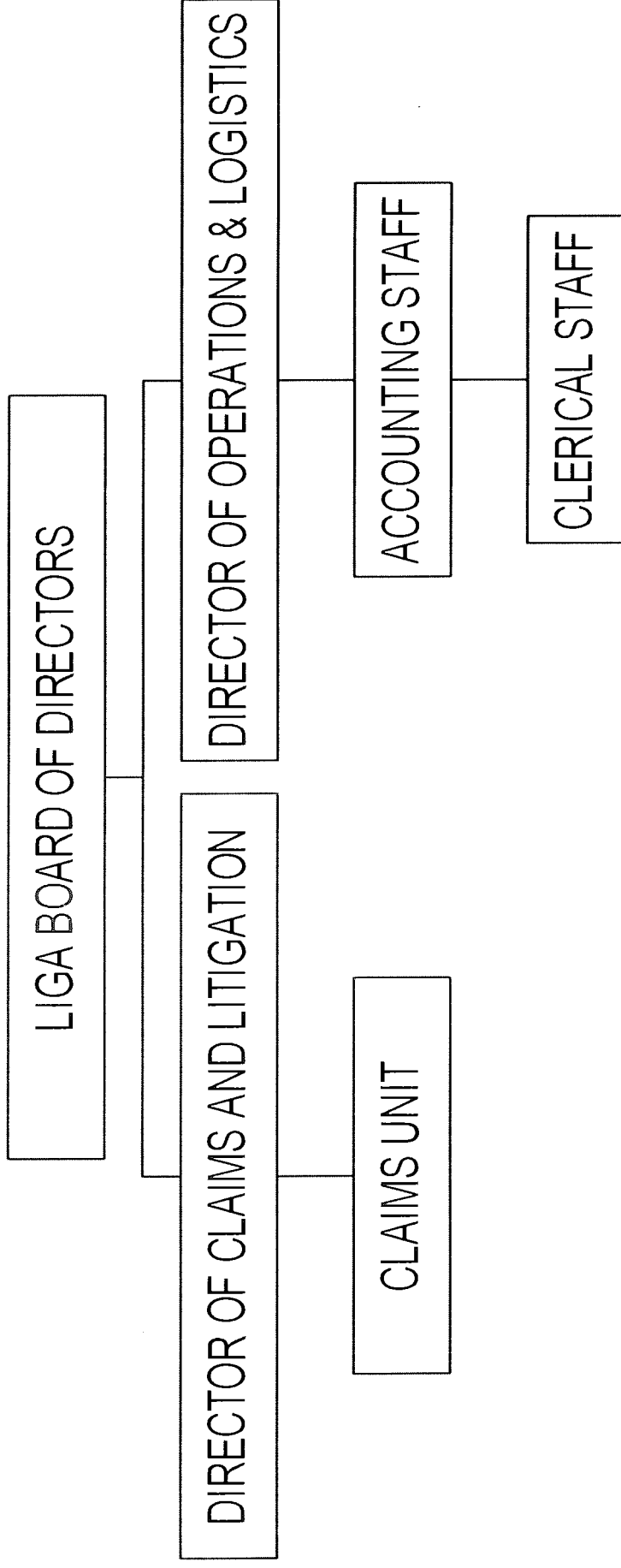
Director of Operations & Logistics

KENNETH H. SCHNAUDER

Director of Claims & Litigation

ORGANIZATIONAL CHART

AS OF
MARCH 30, 2005



March 30, 2005

Hon. J. Robert Wooley, Commissioner
Department of Insurance
State of Louisiana
P.O. Box 94214
Baton Rouge, Louisiana
70804-9214

RE: 2004 Annual Financial Report of LIGA

Dear Commissioner:

Pursuant to *La. R.S. 22:1388*, we are pleased to submit to you LIGA's 2004 Annual Financial Report.

2004 was a highly productive year for LIGA, as a decrease in insolvencies/new claims created the window of opportunity for LIGA to reach a number of milestones:

settled a record number of claims;
collected an unprecedented amount of early access distributions from insolvent estates;
downsized staff and further streamlined operations;
completed an audit of our environmental claims handling;
initiated a new more efficient software accounting program;
revamped our attorney list and qualifications;
completed our headquarters renovation;
passed legislation to reduce our reserve exposure;
operated our first year within the 1% assessment rate cap;
adopted a Standards of Conduct and Employee Handbook;
re-wrote our Plan of Operation; and
re-wrote our Policies & Procedures Manual,

LIGA received two new insolvencies in 2004 (Commercial Casualty of NC Insurance Company of Georgia and Casualty Reciprocal Exchange of Missouri). We anticipate a minimum of two insolvencies in 2005.

Recoveries from liquidators reached a record \$36,634,890.31 collected in 2004.

Total expenditures rose slightly from \$34,757,151. in 2003 to \$35,914,929. in 2004. The number of claims pending at year-end fell from 4,471 in 2003 to 3,767 in 2004.

LIGA's reserves remained in excess of \$1,000,000,000. during 2004, and will expectantly increase this year. Our non-environmental reserves are currently

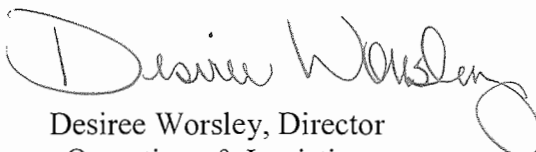
(Page 2, Commissioner Wooley)

\$101,028,349., while the environmental reserve posting is \$1,108,170,000. for a total of \$1.2 billion.

Forecasting future insolvencies, their volume, and the ever-growing environmental litigation files remain our biggest challenges at LIGA in the coming year. LIGA remains committed to operating at its' peak of efficiency through the use of temporary employees and TPA's, enabling us to downsize when the opportunity presents itself for further savings. Our new facility will eliminate escalating rental payments and meet LIGA's needs for decades to come. Finally, it is our committed goal to operate LIGA with minimal or no assessment of our member insurers whenever possible. We believe we have initiated the progressive reform and operational strategy that will enable LIGA to meet these ideals in the years ahead.

LIGA would like to express its appreciation to you, your Department, and the Legislature for their continued support of our reform movement. Enclosed herein is our 2004 Report on Insolvent Companies, 2004 Company Claims Activity, 2004 Report of LIGA's General Counsel, and our Annual Financial Audit for 2004 prepared by Postlethwaite & Netterville.

Respectfully submitted,

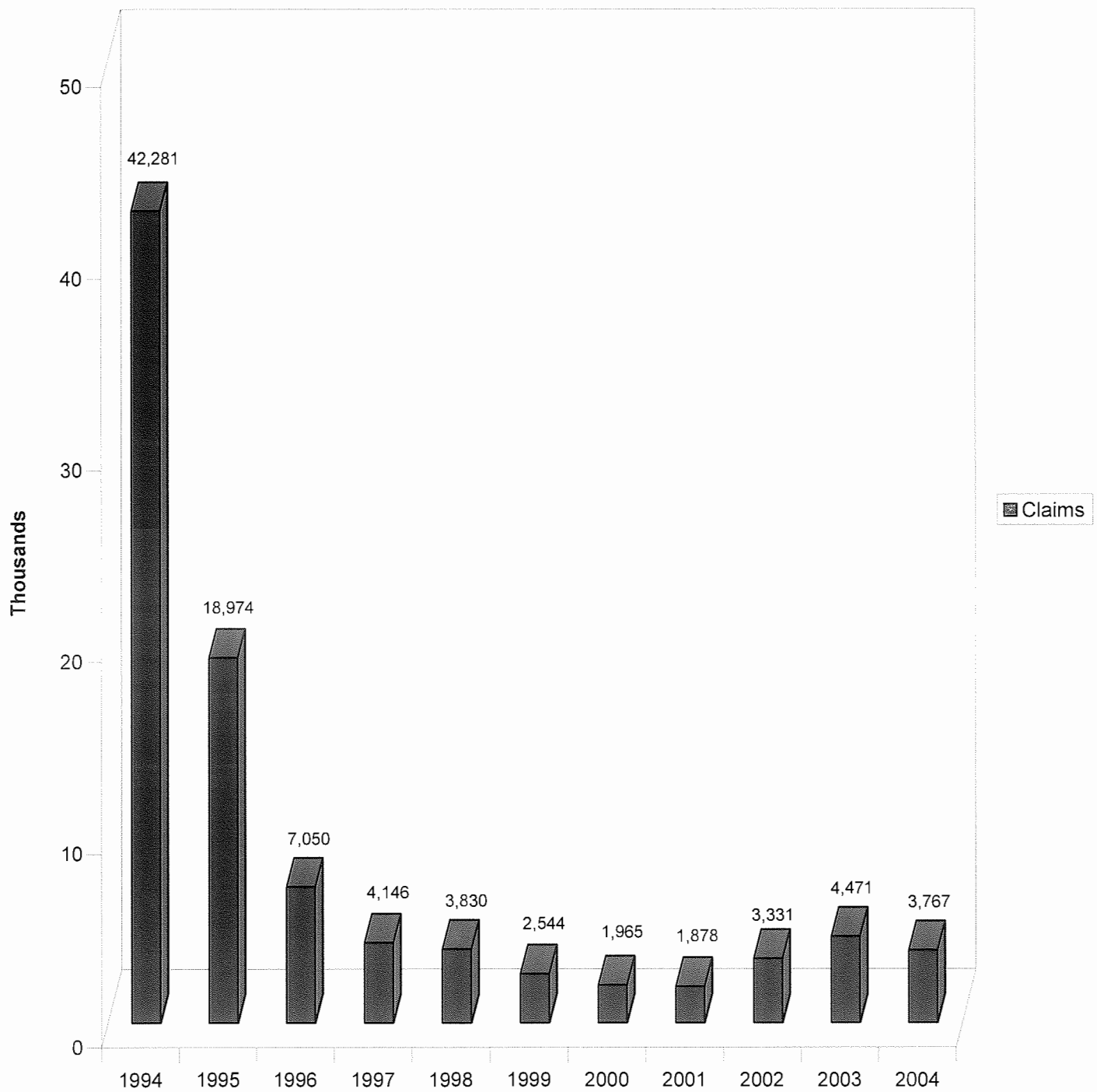

Desiree Worsley, Director
Operations & Logistics

*Receipt acknowledged this _____ day of _____, 2005
by _____ of the Louisiana Department of Insurance*

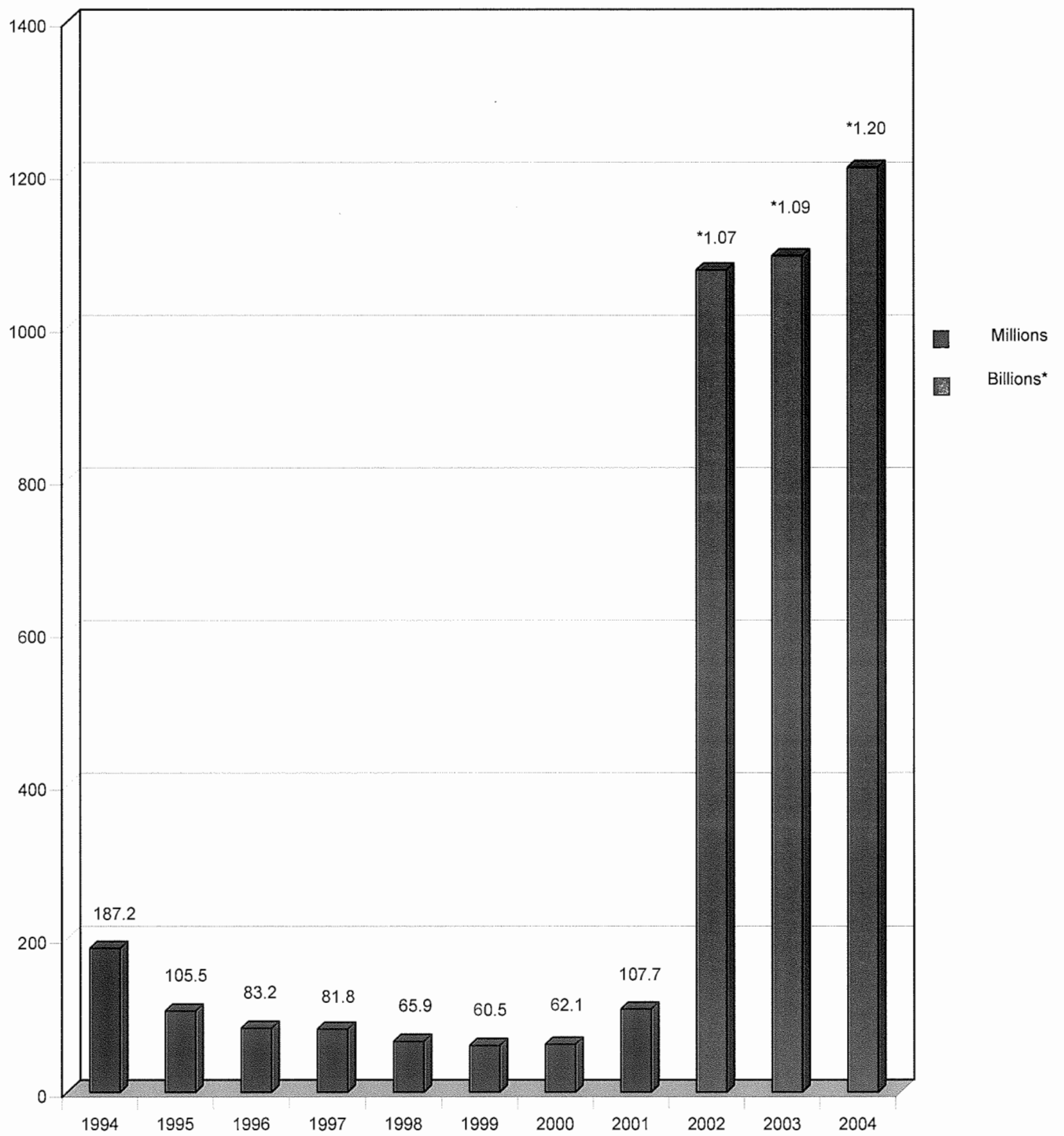
cc: Board of Directors, LIGA
Chairman Carter, House Insurance Committee
Chairman Cain, Senate Insurance Committee
General Counsel, LIGA

DW/lb

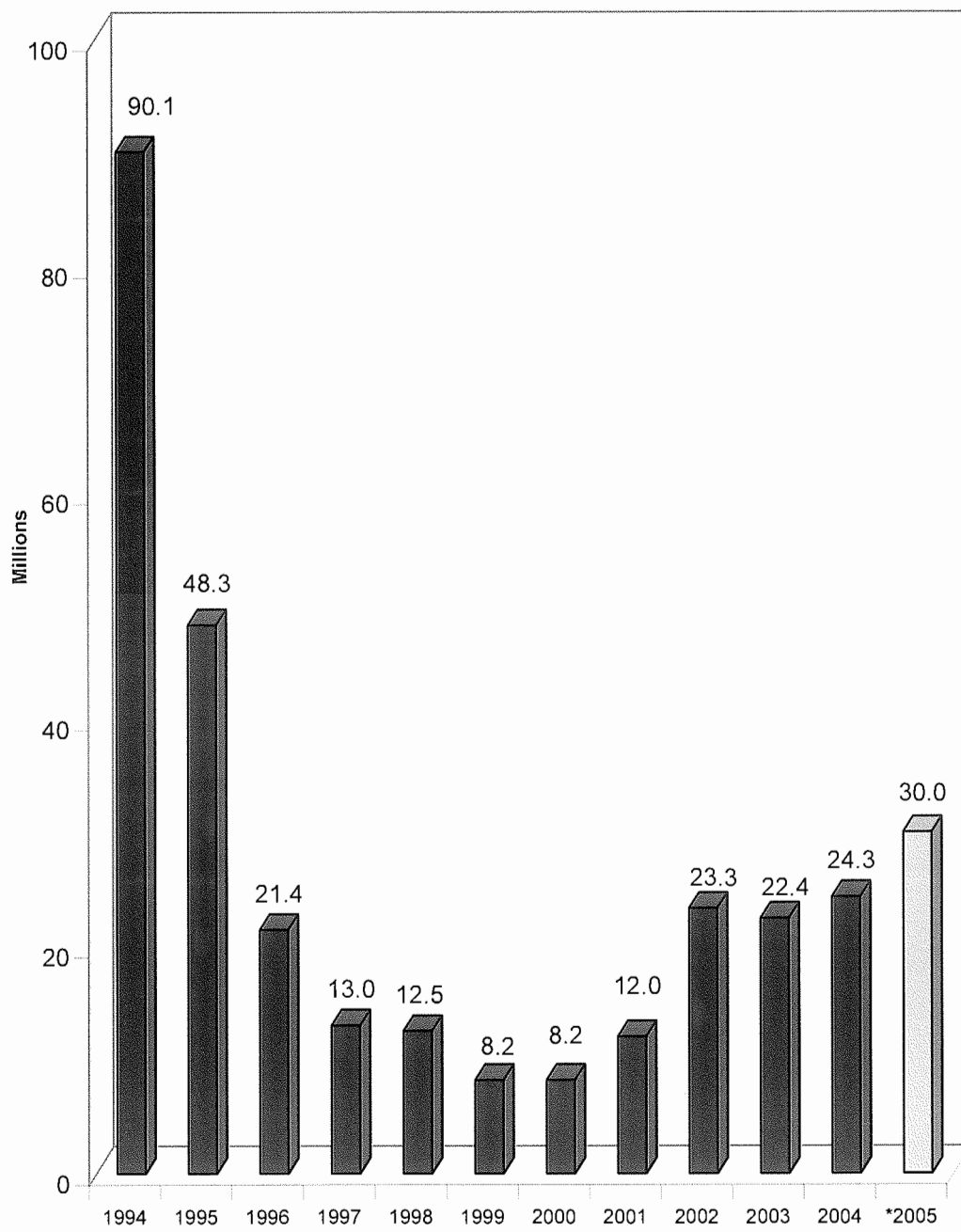
CLAIMS PENDING PER YEAR



Reserves Per Year

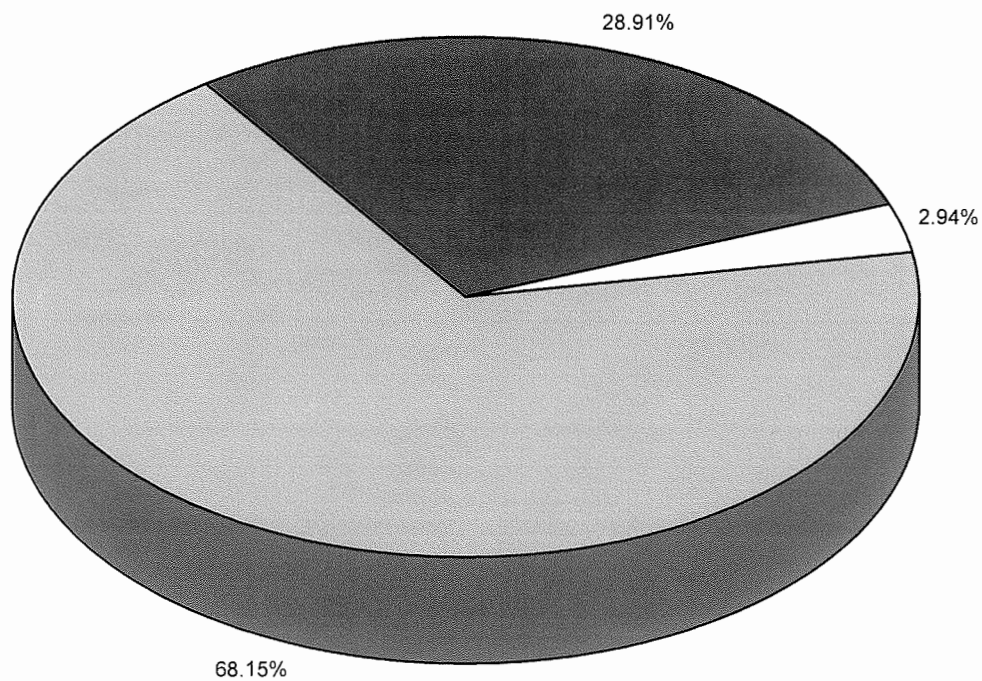


LOSSES PAID PER YEAR



* - Projected

2004 Total Expenditures - \$35,914,929



■ Claims Paid - \$24,474,480.

■ Allocated Expenses (Claims Handling) - \$10,384,447

□ Unallocated Expenses (Administrative) - \$1,056,003

LOUISIANA INSURANCE GUARANTY ASSOCIATION

FINANCIAL STATEMENTS

(Cash Basis)

DECEMBER 31, 2004 AND 2003

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Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

Summary Schedule of Prior Audit Finding



Postlethwaite & Netterville

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Associated Offices in Principal Cities of the United States
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Independent Auditors' Report

Members and Directors
Louisiana Insurance Guaranty Association
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position arising from cash transactions of Louisiana Insurance Guaranty Association as of December 31, 2004 and 2003, and the related statements of activities for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Insurance Guaranty Association as of December 31, 2004 and 2003 and its changes in net assets during the years then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2005 on our consideration of the Louisiana Insurance Guaranty Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Since these financial statements are prepared on a cash basis, no liability is recorded for future payments for return of unearned premiums or claims. However, as discussed in Note 7 to the financial statements, the Association regularly estimates liabilities for such losses. These estimated losses have not been audited by us and accordingly we express no opinion or any other form of assurance on them.

Postlethwaite & Netterville

Baton Rouge, Louisiana
January 28, 2005

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Cash	\$ 4,947,166	\$ 1,718,882
Investments	<u>228,191,642</u>	<u>130,233,603</u>
	<u>\$ 233,138,808</u>	<u>\$ 131,952,485</u>

LIABILITIES AND NET ASSETS

Outstanding checks in excess of bank balances	\$ 1,698,648	\$ 1,811,943
Net assets	<u>231,440,160</u>	<u>130,140,542</u>
	<u>\$ 233,138,808</u>	<u>\$ 131,952,485</u>

The accompanying notes are an integral part of these statements.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>RECEIPTS</u>		
Assessments	\$ 93,608,731	\$ 49,297,777
Distributions from liquidators	37,665,888	11,557,971
Interest income	6,425,474	6,153,363
Net loss on disposition of investments	(532,880)	(2,381,868)
Restitutions	12,560	34,183
Other income	34,773	-
	<u>137,214,546</u>	<u>64,661,431</u>
<u>DISBURSEMENTS</u>		
Claims paid	24,101,632	22,394,864
Unearned premiums paid	372,848	386,171
Legal fees and expenses	7,762,728	7,242,064
Claims handling costs	2,621,720	2,466,811
Professional and bank fees	345,294	267,398
Staff salaries, taxes, and benefits	341,306	291,977
Travel, meetings, and seminars	27,663	17,868
Building and renovations	102,458	1,165,844
Administrative expenses	239,279	396,954
	<u>35,914,928</u>	<u>34,629,951</u>
<u>EXCESS OF RECEIPTS OVER DISBURSEMENTS</u>	101,299,618	30,031,480
Net assets - beginning of the year	<u>130,140,542</u>	<u>100,109,062</u>
Net assets - end of the year	<u>\$ 231,440,160</u>	<u>\$ 130,140,542</u>

The accompanying notes are an integral part of these statements.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Organization

The Louisiana Insurance Guaranty Association (the Association) is an organization created by the Louisiana Insurance Guaranty Act to pay for the claims against insolvent member insurance companies. Funds are provided for the payment of the claims by the assessment of the remaining member insurance companies. All admitted insurance companies doing business in Louisiana are required to be members of the Association (excluding the following lines of business: life, health and accident, title, disability, mortgage guaranty, and ocean marine insurance as well as all types of reinsurance).

The Association's day-to-day operations and management are performed by the Association's staff under the direction of the Board of Directors. The Association also contracts with outside staffing services, claims service providers, and other professionals to carry out these functions.

Accounting Method

The Association's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, revenue and related assets are recognized when received, and expenses and related liabilities are recognized when paid. Accordingly, no liabilities are recorded for future payments for unearned premiums, loss claims or related expenses. As discussed in Note 7, the Association regularly estimates amounts for such liabilities.

Equipment and Facilities

The Association recognizes equipment and facilities as cash disbursements when incurred. These items are not capitalized and depreciated under the Association's cash basis of accounting.

Income Taxes

The Association is exempt from income taxes under Internal Revenue Code Section 501(c)(6); therefore, no provision for income taxes has been made.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Investments

The Association's investments are recorded at cost and consisted of the following at December 31, 2004 and 2003:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
U.S. Government securities under agreement to sell	\$ 3,429,309	\$ 3,429,309	\$ 2,685,995	\$ 2,685,995
Money market accounts invested in U.S. Treasury obligations	5,643,219	5,643,219	3,937,770	3,937,770
U.S. Treasury notes and bonds	116,351,669	114,317,413	39,856,164	39,572,074
U.S. Government Agency obligations	<u>102,767,445</u>	<u>100,092,401</u>	<u>83,753,674</u>	<u>83,770,406</u>
	<u>\$228,191,642</u>	<u>\$223,482,342</u>	<u>\$130,233,603</u>	<u>\$ 129,966,245</u>

The Association's policy is to purchase securities issued by the U.S. Treasury and obligations issued or guaranteed by the U.S. Government and its Agencies. The estimated fair value of these securities is based on quoted market prices. The Association enters into short-term repurchase agreements with Louisiana financial institutions whereby the Association purchases U.S. Government securities with an agreement to resell the securities to the financial institution at cost. The Association also deposits funds in money market accounts invested in U.S. Treasury obligations.

The Association purchases securities at premiums or discounts from the contractual maturity amount of the security. Due to the use of the cash basis of accounting, these premiums and discounts are not amortized over the holding period of the security. Instead, these differences are reported as gains or losses upon maturity or sale of the respective security. Accordingly, interest income reflects the contractual interest payments received under the investment securities.

3. Restricted Net Assets

Net assets represent funds collected from member insurance companies, distributions from liquidators, interest income, and other receipts in excess of funds disbursed to pay claims and expenses of the Association. All assets are considered restricted under the Act creating the Association. Excess funds are to be used for the payment of claims, return of unearned premiums and reimbursement of expenses incurred for the insolvent member insurance companies (See Note 7).

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4. Assessments

Louisiana Revised Statute 22:1382 gives the Association the authority to assess member insurance companies the amount necessary to pay the obligations and expenses of the Association. Beginning January 1, 2003, and thereafter, the assessment to member insurance companies is not to exceed an amount equal to one percent (1%) of net direct written premiums during the preceding calendar year, unless changed by the Louisiana Legislature.

The Association has determined that six member companies qualify for earned credits of up to 80% of their annual assessments. Member companies can also qualify for assessment reductions by investing in qualifying Louisiana securities.

5. Early Access Distributions by Liquidators

The Association files claims against the estates of insolvent insurers in an effort to recover a portion of the policyholders' claims paid and related expenses from the assets of the insolvent insurers. During the years ended December 31, 2004 and 2003, the Association received \$37,665,888 and \$11,557,971, respectively, of such distributions which are reflected as receipts in these financial statements. No estimate is available of future potential distributions from liquidations due to the uncertainty and difficulty in accurately estimating these amounts.

6. Building

On December 3, 2002, the Association purchased land and a building in Baton Rouge, Louisiana to be used as a new headquarters site. The building underwent renovations and was occupied and placed into service during 2003. The cost of the building and related improvements were reflected as building expenditures during 2003 as a result of the building being put into use.

7. Estimate of Future Return of Unearned Premiums and Claims Payments (Not Audited)

The funds of the Association are used to pay insurance claims of insolvent member insurance companies (See Note 3). These claims are pursuant to the Louisiana Insurance Guaranty Law, La. R.S. 22:1375-1394. As of December 31, 2004, the Association had 3,767 open claims files outstanding, a substantial portion of which are involved in litigation. The Association is also in the process of identifying and quantifying recent insolvencies for which estimated claims liability information is considered uncertain and or incomplete. Additionally, other member insurance companies may be declared insolvent subsequent to the date of these financial statements.

Due to the uncertainty involved in accepting and administering insolvent companies, as well as the difficulty in determining reliable estimates, the Association maintains its financial records on a cash basis. However, the Association regularly attempts to estimate the amount of claims and claims administration expenses related to insolvent member insurance companies. This "reserve setting" practice is a common function of managing and administering those losses.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

7. **Estimate of Future Return of Unearned Premiums and Claims Payments** (Not Audited) (continued)

Provided below is an unaudited condensed balance sheet of the Association at December 31, 2004, on a modified accrual basis which recognizes management's estimate of claims and related liabilities. This information is intended to reflect only certain estimated assets and liabilities of the Association and is not intended to represent the financial position of the Association in accordance with accounting principles generally accepted in the United States of America. These estimates are expected to vary as additional information becomes available.

The condensed unaudited balance sheet does not provide for accruals of amounts due from liquidators of insolvent insurance companies, billed but uncollected member assessments due, capitalization of property and equipment, adjustments of investments to estimated fair value, and accruals of operating costs owed at year end not included in the reserves for claims administration expenses.

As described in Note 4, the Association has been granted the authority to assess member insurers at a rate of one percent (1%) beginning January 1, 2003, which, if assessed, is expected to produce approximately \$58 million annually. Additionally, La. R.S. 22:1382 provides that if the maximum assessment and other assets available to the Association are insufficient to make all necessary payments, the Association may borrow additional funds or payments can be reduced on a prorated basis and unpaid balances are to be paid as funds become available.

		<u>A S S E T S</u>	
		December 31, 2004	
		<u>Unaudited</u>	
Cash		\$ 4,947,166	
Investments, at cost		<u>228,191,642</u>	
Total assets		<u>\$ 233,138,808</u>	
 <u>LIABILITIES AND NET ASSETS</u>			
Outstanding checks in excess of bank balances		\$ 1,698,648	
Estimated claims and claims administration expenses payable		<u>1,209,198,349</u>	(1)
Total liabilities		<u>1,210,896,997</u>	
Net assets (deficit)		<u>(977,758,189)</u>	(2)
Total liabilities and net assets		<u>\$ 233,138,808</u>	

(1) Represents management's estimate of claims and claims administration expense reserves related to open claim files at December 31, 2004.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

7. **Estimate of Future Return of Unearned Premiums and Claims Payments** (Not Audited) (continued)

The Association has been notified of claims, as well as threatened claims, by certain large insureds of insolvent insurance companies relating to the use and production of asbestos, silica, tobacco, and environmentally hazardous materials. The Association continues to evaluate the merits of these claims, the appropriateness of coverage under the Act, and the amount of potential liability to the Association.

Management includes in the reserve for claims and claims administration expense amounts estimated as the Association's liability for these claims based on present statutes and based on the best information available at this time. However, there are numerous and significant uncertainties regarding the amount of ultimate liability the Association may be responsible for under these claims and when amounts ultimately determined as owed by the Association become due and payable. As facts and circumstances develop, management intends to revise its estimates of these claims liabilities. Revisions in these estimates could result in significant increases or decreases in these estimates.

- (2) Due to the uncertainty of the timing and amount of claims to be paid by the Association, it is unknown whether the Association can meet its claims obligations as they become due. As described in Note 4, the Association has the statutory authority to assess up to 1% of member insureds' net direct written premiums annually if necessary to pay its obligations. The Association financial resources also include receipt of investment earnings and the continued receipt of proceeds from liquidators of insolvent insurance companies.



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Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Members and Directors
Louisiana Insurance Guaranty Association
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Insurance Guaranty Association as of and for the year ended December 31, 2004, and have issued our report there on dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Louisiana Insurance Guaranty Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisiana Insurance Guaranty Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management of the Louisiana Insurance Guaranty Association, the Commissioner of Insurance, State of Louisiana, and the Legislative Auditor, State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

Baton Rouge, Louisiana
January 28, 2005

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING

Internal control structure findings:

Criteria: Reconciliation of investment account.

Condition: The Association reconciles the transaction activity in the investment custodial accounts maintained by the Association's investment manager to the activity reported in the Association's general ledger. Complete reconciliation procedures should also include reconciliation of the ending cost balances as reported on the monthly investment statements and the cost balances as reflected on the Association's general ledger.

Status: Management has implemented reconciliation procedures to reconcile the ending cost balances as reported by the investment manager to the investment balance maintained in the Association's general ledger. This reconciliation is being performed promptly and being reviewed by an outside party.

February 28, 2005

**Report of General Counsel
Year Ending December 31, 2003**

I. 2004 Legislation

The 2004 Legislative Session was once again a General Session, in accordance with the Louisiana Constitution of 1974, as amended. General Sessions are now held in even-numbered years, and "Fiscal" Sessions in odd-numbered years. However, legislators are now authorized to file up to five (5) general bills apiece during Fiscal Sessions, so there are likely to be bills of general interest to LIGA filed every year.

LIGA again introduced legislation in 2004 to reinstate LIGA's authority to assess Member Insurers up to two (2%) percent of net direct written premiums, as House Bill Nos. 315 and 801. LIGA agreed not to push these Bills if the asbestos reform Bill (House Bill No. 1051, discussed below) was passed. Since the asbestos reform Bill was successful, these Bills were never heard.

House Bill No. 1051 was introduced at LIGA's request, outlining the procedure for asserting claims involving exposure to asbestos or other environmental claims against LIGA. This Bill limits payment for such claims to persons who either reside in Louisiana or were exposed in Louisiana. Further, this Bill strengthened LIGA's non-duplication of recovery clause relative to "other available insurance." This Bill made clear that LIGA drops behind any and all other coverages for the time period of the alleged exposure, regardless of the policy period covered by the insolvent insurer. Thus, if other solvent insurance is available for this claim, that coverage would have to be exhausted before reaching LIGA's coverage. This Bill was passed by the Legislature, and should help protect LIGA's limited resources to pay Louisiana citizens and employees for such claims.

LIGA also introduced, and successfully passed, House Bill No. 1052, which amended the provisions in LIGA law regarding the net worth exemptions. The Bill clarified the definition of "covered claim"; defined the term "affiliates", adopting the definition of that term provided in the State Insurance Code; corrected a typographical error in the statute referring to the insolvency of the "insured", to the insolvency of the "insurer"; clarified that LIGA is not required to defend a claim asserted against an insured with a net worth in excess of \$25 million and then seek reimbursement, but rather may seek reimbursement if it (accidentally or otherwise) does so; fixed an inconsistency in the statute regarding reimbursement of such "covered claims", while defining them as not being "covered claims"; clarified that the net worth calculation should be done on a "fair market value"; repealed the section barring LIGA from subjecting those premiums written for high net worth insureds to its assessments, as LIGA has no way of knowing which premiums are for such insureds;

and, created a rebuttable presumption that the failure of an insured to return a net worth affidavit after repeated requests indicates a net worth of greater than \$25 million. This Bill should clarify and strengthen LIGA's ability to use the net worth exemption to prevent unnecessary drains on its limited resources.

LIGA also defended against several proposed Bills which were of concern to LIGA. House Bill No. 748 would have extended the eighty (80%) percent assessment credit to any authorized insurer who has, on average, at least one-half of its admitted assets invested in qualifying Louisiana investments for that year. This Bill was deferred by the House Insurance Committee by a vote of 7 to 6.

House Bill No. 751 would have eliminated the eighty (80%) percent assessment credit as currently enacted, in its entirety. At the request of the author, this Bill was not heard.

House Bill No. 1079 would have provided that self-insurance coverage "afforded through" state entities, agencies, or boards, including entities funded by state or federal programs, or both, would not have been considered "other available insurance" under LIGA's non-duplication of recovery provision. After discussions with the proponents of this Bill regarding LIGA's concerns, it was not heard.

LIGA did not oppose House Bill No. 1424, which was enacted as Act No. 140. This Bill repealed the Section of law that required LIGA to deposit certain refund monies into the State General Fund.

Senate Bill No. 49 was a duplicate of House Bill No. 1079 regarding state self-insurance, and was likewise not heard.

Senate Bill No. 498 would have made LIGA subject to the time limits provided to insurers for payments of workers' compensation claims, and to the penalties and attorney fees available when medical treatment or indemnity benefits are improperly delayed or denied to injured workers. The author deferred hearing this Bill when LIGA committed to him that we would adopt a "prompt payment" provision in our Policies and Procedures Manual. Accordingly, Article II, Section A.10 relative to Unfair Claims Practices has been amended to include a provision that "all employees and contractors should make every effort to pay covered claims promptly and to ensure that no unnecessary delays are incurred in the processing of claims submitted to the Association." Further, Article II, Section A.11 relative to Hardship Claims has been amended to provide that, "The Association should take steps to ensure that medical and indemnity payments in connection with continuing covered claims receive priority over other claims to ensure that no unnecessary delays or interruptions in such coverage are incurred as a result of the insolvency."

Similarly, Senate Bill No. 525 would have amended the definition of a LIGA "covered claim" to include a claim for penalties and attorney fees based on the acts or omissions of LIGA under LIGA law. This Bill was also deferred by the author as a result of the compromise discussed above.

II. Significant Jurisprudence

As always, there were several important cases decided in 2004 which affect the insurance industry at large and therefore indirectly affect LIGA. However, this report will include a discussion of only those cases which involve or directly affect the application of LIGA Law.

- 1) *Freeman v. Philan, Wray Ford, Inc., and Reliance Insurance Company*
No. 37,685 859 (La. App. 2d Cir. 10/9/03), 859 So.2d 821, writs denied (La. 2/6/04)

This is the case reported last year in which the Second Circuit Court of Appeal found that RLI's excess insurance policy provided primary coverage for the damages sustained to Freeman, and that it must be exhausted before coverage under LIGA is triggered. The same policy at issue in this case is at issue in approximately 40 other LIGA cases, and LIGA is attempting to have another Court adopt the Freeman ruling. In 2004, the Supreme Court denied RLI's application for writs.

- 2) *Dalleo v. River Construction Co., Inc.*
89 Fed Appx. 465 (5th Cir. La. 3/15/04)

This case was also originally reported last year, citing the holding by the United State District Court for the Eastern District of Louisiana that the mere fact that Dalleo was not a seaman and that his accident involved a dock rather than a vessel or that his underlying claim was brought pursuant to the Longshore Harborworker's Act does not negate the "ocean marine" nature of his employer's claim to LIGA and, therefore, it was not a "covered claim". Dalleo's employer appealed, and the United States Fifth Circuit Court of Appeal affirmed this ruling in 2004.

- 3) *New Orleans Assets, L.L.C. v. Woodward*
No. 03-30286 (5th Cir. La. 3/12/04), 363 F.3d 372

New Orleans Assets ("NOA") owned a building, and learned that extensive mildew and mold on the exterior walls would require expensive repairs. NOA sued various parties involved in the design and construction of the building, and LIGA, because NOA's property insurer, Reliance Insurance Company, had become insolvent. NOA settled with several defendants, and LIGA filed a Motion for Summary Judgment on the basis that the insurance contract between NOA and Reliance required NOA to reimburse its insurer for any payment received in settlement even if NOA had not yet recovered its full loss. LIGA argued that, since NOA had received more than LIGA's statutory maximum of \$149,900, LIGA owed NOA nothing on this claim. The District Court agreed and granted Summary Judgment in LIGA's favor. NOA appealed.

The Fifth Circuit Court of Appeal held that the clause in the contract at issue is a conventional subrogation clause to which the "make whole" principal applies. The "make whole" principal gives priority to the beneficiary to keep everything he recovers from third parties until he is made entirely whole, as opposed to the "plan priority" principal, under which priority is given to the plan for full recovery "off the top". Accordingly, the Court reversed the District Court's grant of Summary Judgment, and remanded the case for further proceedings.

III. New and Anticipated Insolvencies; Estate Closures and Distributions of Assets from the Estates of Liquidated Insurers

In 2004, two (2) domestic insolvencies, Alliance Casualty and Reinsurance Company was closed on 9/20/04 and Colonial Lloyds Insurance Company was closed on 02/18/04 by the Office Receivership. LIGA received \$37,665,888.49 in distributions from insolvent estates during the year.

Commercial Casualty of NC Insurance Company, a Georgia insurer, was declared insolvent on April 2, 2004. This insolvency generated 60 claims for LIGA, the majority being contractor liability claims. As of the end of the year, there were 44 pending Commercial Casualty of NC claims. Outstanding reserves for Commercial Casualty of NC claims were \$1,097,353 as of 2004 year end.

Casualty Reciprocal Exchange, a Missouri insurer, was declared insolvent on August 18, 2004. This insolvency generated 64 claims for LIGA, the majority being worker's compensation claims. As of the end of the year, there were 52 pending Casualty Reciprocal Exchange claims. Outstanding reserves for Casualty Reciprocal Exchange claims were \$12,494,978 as of 2004 year end.

IV. Plan of Operation Revisions

The Plan of Operation was amended at the Board meeting held on June 23, 2004, to amend Articles III, IV, V, VI, VII, VIII, IX, X, XII, XIII, and XIV. These amendments were the result of a comprehensive review and revision of the Plan of Operation by Mr. Moreland, LIGA staff, and General Counsel. These amendments to the Plan of Operation were approved by the Commissioner of Insurance.

The Plan of Operation was amended at the Board meeting held on December 16, 2004, to amend Article V(D)(1) deleting the position of Executive Director.

Significant Board Actions

The Board of Directors met four (4) times during 2004 to conduct the regular business of LIGA. There were no Special Board of Directors meetings in 2004. The following Board actions were of significance:

1) The Board received the results of a legal audit by Stuart, Maue, Mitchell & James, Ltd., and a financial audit by Postlethwaite & Netterville, to assist in the assessment and evaluation of its operations and fiscal position, and legal fees paid for the defense of its environmental claims.

2) The Board accepted the resignation of Sidney S. Moreland, IV, as the appointee of the Commissioner of Insurance, on September 16, 2004. James Davison was appointed by the Commissioner of Insurance on September 30, 2004 to replace Mr. Moreland. J. E. Brignac, Jr. was appointed to the Board by the President of the Senate on May 26, 2004. Michael Gray and Stephen Schrempp were reappointed to new three-year terms at the Annual Meeting held on June 23, 2004.

3) The Board voted to assess Member Insurers one (1%) percent of net direct written premiums at its June 23, 2004 meeting.

Milling Benson Woodward, L.L.P.

By: Stephanie B. Laborde
Stephanie B. Laborde

LOUISIANA INSURANCE GUARANTY ASSOCIATION
COMPANY CLAIMS ACTIVITY
FOR YEAR ENDING 2004

COMPANY NAME	CLOSED IN 2004	PENDING 12/31/04	LOSSES PAID IN 2004	CLAIMS EXPENSES PAID IN 2004	OUTSTANDING RESERVES
A.N.A.	0	0	0	38	0
ACCELERATION NATIONAL	5	2	14,200	11,676	26,659
ALLIANCE CASUALTY	0	2	11,197	266	463,710
AMERICAN DRUGGIST	0	1	22,507	1,379	71,767
AMERICAN EAGLE	0	2	2,500	3,338	121,137
AMERICAN FIDELITY	0	1	0	510	64,594
AMERICAN LLOYDS	1	1	43,962	700	26,992
AMERICAN MUTUAL BOSTON	6	10	164,216	10,203	971,005
AMERICAN MUTUAL LIABILITY	61	1,327	896,057	1,888,392	379,626,589
AMERICAN SURETY & FIDELITY	2	1	0	596	9,166
ANDREW JACKSON	1	0	0	0	0
ANGLO AMERICAN	8	12	148,820	32,131	1,759,163
ARIST NAT'L/CERTIFIED	3	1	0	639	10,936
CALIFORNIA COMPENSATION	4	5	98,676	36,855	173,175
CAR (AUTOMOTIVE CASUALTY)	8	8	16,500	19,405	73,269
CARRIERS	0	1	9,360	281	65,136
CASCADE	0	1	0	1,479	16,656
CASUALTY RECIPROCAL	12	52	674,835	79,633	12,494,978
CHAMPION	2	1	9,900	3,497	392

LOUISIANA INSURANCE GUARANTY ASSOCIATION
COMPANY CLAIMS ACTIVITY
FOR YEAR ENDING 2004

COMPANY NAME	CLOSED IN 2004	PENDING 12/31/04	LOSSES PAID IN 2004	CLAIMS EXPENSES PAID IN 2004	OUTSTANDING RESERVES
COLONIAL LLOYDS	3	3	0	6,516	13,929
COMCO	2	0	0	631	0
COMMERCIAL CASUALTY	16	44	20,636	90,476	1,097,353
COMMERCIAL COMPENSATION	8	19	555,357	91,974	808,914
CREDIT GENERAL	63	64	1,596,612	365,324	6,999,369
EARLY AMERICAN	1	0	0	579	0
EMPLOYERS CASUALTY	3	16	2,418	10,426	10,804,034
EMPLOYERS NATIONAL	46	89	442,544	166,026	7,372,287
EXCALIBUR	0	0	0	0	0
FIDELITY FIRE & CASUALTY	3	1	9,600	626	4,239
FIRST SOUTHERN	1	1	45,008	3,587	15,503
FREMONT INSURANCE CO.	4	4	129,130	26,280	235,630
GENERAL	4	6	0	5,549	10,004
GULF COAST CASUALTY	0	1	5,250	645	1,967
HAMILTON INSURANCE CO.	0	1	0	331	10,824
HOME INSURANCE CO.	35	120	219,522	131,216	23,051,202
IDEAL MUTUAL	0	3	132,140	38,343	937,389
INSURANCE CORP. OF AMERICA	9	12	84,900	207,192	840,986
INTEGRITY	16	1	0	2,276	56,741

LOUISIANA INSURANCE GUARANTY ASSOCIATION
COMPANY CLAIMS ACTIVITY
FOR YEAR ENDING 2004

COMPANY NAME	CLOSED IN 2004	PENDING 12/31/04	LOSSES	CLAIMS	OUTSTANDING RESERVES
			PAID IN 2004	EXPENSES PAID IN 2004	
LARAMIE	1	1	0	1,242	95,335
LEGION INSURANCE CO.	91	158	2,851,145	904,536	7,893,740
LIBERTY LLOYDS	10	6	450	28,841	30,580
LLOYDS ASSURANCE	0	2	0	553	4,211
LUTHERAN BENEVOLENT	0	0	0	10	0
MAGNOLIA FIRE & CASUALTY	1	1	0	152	10,477
MERIT	1	3	2,000	2,233	5,367
MIDLAND	1	18	133,210	18,540	1,375,949
MILLERS INSURANCE CO.	19	11	117,917	45,333	325,755
MISSION	1	15	12,482	9,620	440,485
MISSION NATIONAL	0	2	0	761	175,777
NATIONAL ALLIED	0	1	9,516	631	131,221
NEW ENGLAND INTERNATIONAL	0	0	0	0	0
NORTH AMERICAN INDEMNITY	1	0	0	851	0
OLD HICKORY	4	3	46,227	6,605	278,238
PACIFIC MARINE	0	3	46,220	1,229	693,942
PATTERSON INSURANCE CO.	807	524	2,481,590	2,028,373	3,981,709
PELICAN STATE MUTUAL	4	6	0	11,814	156,737
PETROSURANCE	1	7	110,940	29,206	788,224

LOUISIANA INSURANCE GUARANTY ASSOCIATION
COMPANY CLAIMS ACTIVITY
FOR YEAR ENDING 2004

COMPANY NAME	CLOSED IN 2004	PENDING 12/31/04	LOSSES PAID IN 2004	CLAIMS EXPENSES PAID IN 2004	OUTSTANDING RESERVES
PHICO	19	10	296,500	153,052	261,437
PINNACLE	3	3	24,000	7,880	310,026
PRESIDENTIAL FIRE & CASUALTY	1	8	91,716	24,487	1,002,816
PROTECTIVE CASUALTY	0	2	16,727	307	139,747
RECIPROCAL OF AMERICA	29	21	561,365	187,136	754,961
RELIANCE NATIONAL	367	932	9,487,700	3,520,309	725,863,766
ROCKWOOD	9	48	1,004,446	100,321	6,404,442
SAVANT	13	9	232,642	37,753	329,773
SOUTHERN AMERICAN	4	12	0	44,765	2,775,111
SUNBELT SOUTHERN LLOYDS	1	0	0	119	0
TRANSIT	1	65	55,610	18,555	4,224,195
U.S. CAPITAL	8	2	20,278	24,390	152,078
UNITED AGENTS	81	60	1,103,481	429,992	1,767,846
UNITED COMMUNITY	11	11	205,228	42,594	235,641
UNITED SOUTHERN ASSURANCE	3	5	8,990	24,411	71,667
UNIVERSAL SECURITY	1	0	0	16	0
VILLANOVA INSURANCE CO.	1	3	9,588	3,807	109,026
INACTIVE COMPANY TOTALS	8	2	12,969	126	172,375
TOTALS	1,829	3,767	24,298,785	10,949,568	1,209,198,349

**LOUISIANA INSURANCE GUARANTY ASSOCIATION
RETURN PREMIUMS PROCESSED
2004**

<u>COMPANY</u>	<u># OF POLICIES</u>	<u>PAYMENTS</u>
LIBERTY LLOYDS	1	\$ 78.00
LEGION	1	\$ 108.00
PATTERSON	1974	\$ 384,597.27
UNITED AGENTS	2	\$ 218.59
<hr/>		
TOTALS	1978	\$385,001.86

**LOUISIANA INSURANCE GUARANTY ASSOCIATION
REPORT ON INSOLVENT COMPANIES
MONIES PAID FROM
DATE OF INSOLVENCY TO 12/31/2004**

<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
A.N.A LA 5/17/1993	10,518,850.34	2,573,072.28	1,546,450.81	\$14,638,373.43
ACCELERATION NATIONAL OH 2/28/2001	88,341.80	61,889.29	0.00	\$150,231.09
ALLIANCE LA 6/19/1992	5,344,649.44	1,248,955.69	612,959.46	\$7,206,564.59
* ALLIED FIDELITY IN 7/15/1986	1,151,896.75	684,836.19	14,865.30	\$1,851,598.24
* AMBASSADOR VT 3/10/1987	0.00	4,474.11	0.00	\$4,474.11
AMERICAN DRUGGIST OH 4/30/1986	1,643,041.67	519,440.69	0.00	\$2,162,482.36
AMERICAN EAGLE TX 12/22/1997	915,130.02	504,333.45	0.00	\$1,419,463.47
* AMERICAN EXCEL TX 5/31/1988	62,754.68	30,734.41	0.00	\$93,489.09
AMERICAN FIDELITY NY 3/14/1986	328,458.62	262,102.29	189,538.09	\$780,099.00
* AMERICAN GUARANTY LA 2/26/1988	30,335.99	21,939.89	73,358.82	\$125,634.70
AMERICAN LLOYDS LA 6/21/1989	9,417,797.02	1,955,967.09	658,423.33	\$12,032,187.44
AMERICAN MUTUAL BOSTON MA 3/9/1989	6,476,151.13	824,074.30	0.00	\$7,300,225.43
AMERICAN MUTUAL LIABILITY MA 3/9/1989	7,037,587.48	10,288,553.15	0.00	\$17,326,140.63
* AMERICAN RESERVE RI 6/12/1979	0.00	8,672.73	0.00	\$8,672.73
AMERICAN SURETY & FIDELITY LA 7/8/1992	8,573,147.25	2,524,204.35	996,119.57	\$12,093,471.17
* AMERICAN UNIVERSAL IL 1/8/1991	335,335.00	22,349.95	0.00	\$357,684.95
ANDREW JACKSON MS 4/4/1992	3,696,783.16	1,310,264.59	1,308,283.76	\$6,315,331.51
* ANDREW JACKSON PROPERTY MS 4/4/1992	52,248.80	3,290.90	20,877.85	\$76,417.55

<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
ANGLO AMERICAN LA 3/20/1989	21,650,811.74	3,852,598.06	1,004,371.48	\$26,507,781.28
ARIST LA 5/4/1992	10,820,659.09	2,392,505.66	438,254.04	\$13,651,418.79
* ASPEN CO 9/6/1984	792,587.37	268,847.18	111.10	\$1,061,545.65
* BONNEVILLE OF OREGON OR 10/22/1993	450,638.63	159,163.80	0.00	\$609,802.43
* CADILLAC MI 1/2/1990	956,259.45	116,084.73	61,087.16	\$1,133,431.34
CALIFORNIA COMPENSATION CA 9/26/2001	692,160.29	293,904.52	11,580.00	\$997,644.81
CAR (AUTOMOTIVE CASUALTY) LA 1/20/1993	30,248,333.10	11,957,451.40	371,788.99	\$42,577,573.49
CARRIERS IA 1/16/1986	1,264,122.73	268,846.77	0.00	\$1,532,969.50
CASCADE LA 8/12/1993	2,562,426.11	560,530.23	3,149.16	\$3,126,105.50
CASUALTY RECIPROCAL MO 8/18/2004	674,834.83	79,632.85	0.00	\$754,467.68
CHAMPION LA 6/5/1989	90,335,586.58	30,435,216.93	5,281,404.54	\$126,052,208.05
* CITIZENS NY 6/14/1971	0.00	24,975.51	0.00	\$24,975.51
COLONIAL LLOYDS LA 3/27/1992	22,400,437.32	5,956,647.97	5,869,054.50	\$34,226,139.79
COMCO TX 1/13/1992	2,319,545.42	1,105,734.27	120,636.04	\$3,545,915.73
COMMERCIAL CASUALTY GA 4/2/2004	20,636.00	90,476.17	0.00	\$111,112.17
COMMERCIAL COMPENSATION CA 9/26/2001	3,292,084.12	1,023,856.83	148,830.00	\$4,464,770.95
* COMMERCIAL STANDARD TX 10/4/1985	23,249.13	3,863.14	793.36	\$27,905.63
* COMMODORE TX 12/20/1990	16,566.66	1,298.27	0.00	\$17,864.93
* COMMONWEALTH GENERAL MO 9/1/1995	11,500.00	2,751.79	0.00	\$14,251.79
* CONSOLIDATED UNDERWRITERS MO 3/24/1978	0.00	800.48	0.00	\$800.48
* COTTON BELT TN 7/9/1982	0.00	820.00	0.00	\$820.00

<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
CREDIT GENERAL OH 1/5/2001	10,696,989.71	2,963,128.33	327,406.94	\$13,987,524.98
* DIXIE LLOYDS LA 12/20/1990	9,202,792.23	4,115,686.36	2,103,022.53	\$15,421,501.12
* DOMINION NY 8/19/1986	0.00	1,932.62	0.00	\$1,932.62
EARLY AMERICAN AL 2/1/1985	3,542,520.19	1,216,200.89	460,371.68	\$5,219,092.76
* EASTERN INDEMNITY MD 1/11/1985	2,050,786.19	255,293.23	0.00	\$2,306,079.42
EMPLOYERS CASUALTY TX 2/11/1994	576,398.14	383,840.94	0.00	\$960,239.08
EMPLOYERS NATIONAL TX 2/11/1994	9,281,955.27	2,752,077.72	7,638.00	\$12,041,670.99
* ENTERPRISE CA 2/24/1987	116,628.80	52,462.58	0.00	\$169,091.38
EXCALIBUR TX 9/5/1984	658,030.74	244,240.25	0.00	\$902,270.99
FIDELITY FIRE & CASUALTY LA 9/4/1991	11,498,100.16	4,894,138.05	685,620.36	\$17,077,858.57
FIRST SOUTHERN FL 10/31/1992	1,658,089.40	297,131.88	299,295.45	\$2,254,516.73
FREMONT INSURANCE CO. CA 7/2/2003	149,385.14	29,128.22	0.00	\$178,513.36
GENERAL	(111,616.81)	2,413,439.59	5,300.68	\$2,307,123.46
* GLACIER GENERAL ASSURANCE MN 11/12/1985	0.00	784.25	0.00	\$784.25
* GREAT GLOBAL AZ 4/27/1987	224,848.26	109,147.30	12,286.04	\$346,281.60
* GREAT PLAINS NE 3/4/1992	0.00	429.58	0.00	\$429.58
* GULF AMERICAN FL 3/3/1984	54,042.46	12,151.02	0.00	\$66,193.48
GULF COAST CASUALTY LA 4/2/1993	3,618,606.60	773,467.13	646,645.01	\$5,038,718.74
HAMILTON INSURANCE CO. PA 8/3/2000	0.00	330.65	0.00	\$330.65
* HERITAGE IL 2/26/1986	276,838.34	41,196.52	0.00	\$318,034.86
* HOLLAND-AMERICA MO 3/6/1987	0.00	1,288.98	0.00	\$1,288.98

<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
HOME INSURANCE CO. NH 6/13/2003	361,926.15	163,951.41	0.00	\$525,877.56
* HOME OWNERS IL 4/8/1979	34,836.44	26,039.29	0.00	\$60,875.73
* HORIZON NY 1/11/1985	228,917.73	50,132.60	1,367.25	\$280,417.58
IDEAL MUTUAL NY 2/7/1985	8,754,218.12	2,364,761.81	5,380.60	\$11,124,360.53
* IMPERIAL CA 1/10/1978	133,091.51	47,699.87	0.00	\$180,791.38
* IMPERIAL LLOYDS LA 7/8/1991	1,806,692.05	719,220.67	0.00	\$2,525,912.72
* INDUSTRIAL FIRE & CASUALTY IL 3/6/1991	0.00	264.58	0.00	\$264.58
INSURANCE CORP. OF AMERICA TX 4/28/1997	3,754,233.62	4,066,032.51	414,669.43	\$8,234,935.56
INTEGRITY NJ 3/24/1987	2,984,050.26	929,919.77	2,648.55	\$3,916,618.58
* INTERCONTINENTAL IL 1/12/1990	0.00	758.25	142.00	\$900.25
* INTERNATIONAL SERVICE TX 7/30/1991	25,000.00	357.64	0.00	\$25,357.64
* INTERSTATE NJ 10/1/1975	0.00	1,481.96	0.00	\$1,481.96
LARAMIE WY 2/14/1990	6,404,833.33	2,387,998.58	1,302,478.13	\$10,095,310.04
LEGION INSURANCE CO. PA 7/28/2003	3,234,950.90	1,038,318.06	108.00	\$4,273,376.96
LIBERTY LLOYDS LA 5/17/1993	43,001,055.65	11,984,942.43	190,675.88	\$55,176,673.96
LLOYDS ASSURANCE LA 6/21/1994	4,396,534.65	1,508,819.45	91,863.34	\$5,997,217.44
* LLOYDS OF LOUISIANA LA 3/6/1986	4,009,454.37	1,130,316.21	1,596,984.03	\$6,736,754.61
LUTHERAN BENEVOLENT MO 12/2/1996	1,037,103.96	241,549.60	102,801.53	\$1,381,455.09
* M.C.A. OK 10/23/1992	0.00	3,915.54	0.00	\$3,915.54
MAGNOLIA FIRE & CASUALTY LA 5/14/1993	751,512.78	179,429.21	79,219.50	\$1,010,161.49
* MANCHESTER OH 2/13/1976	1,647,092.78	385,961.89	132,507.56	\$2,165,562.23

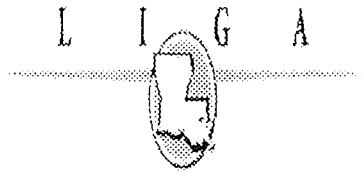
<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
* MARKET IL 12/16/1980	0.00	41.25	0.00	\$41.25
* MARYLAND INDEMNITY MD 11/10/1977	36,714.22	45,576.17	0.00	\$82,290.39
* MEDALLION MO 9/12/1975	205,134.51	126,821.40	493,223.25	\$825,179.16
* MENTOR	0.00	1,112.50	0.00	\$1,112.50
MERIT CASUALTY CO. IL 4/1/1997	661,633.89	172,022.37	0.00	\$833,656.26
* MID-AMERICAN CASUALTY LA 11/7/1990	280,140.00	85,275.90	271,502.07	\$636,917.97
MIDLAND NY 4/3/1986	10,826,620.63	2,665,269.60	16,652.59	\$13,508,542.82
MILLERS INSURANCE CO. TX 3/24/2003	170,701.08	66,662.58	0.00	\$237,363.66
MISSION CA 2/24/1987	1,822,441.96	613,573.26	0.00	\$2,436,015.22
* MISSION AMERICA CA 2/24/1987	0.00	2,760.92	0.00	\$2,760.92
MISSION NATIONAL CA 2/24/1987	831,992.73	609,360.85	0.00	\$1,441,353.58
* MISSION REINSURANCE CORP. CA 2/24/1987	115,000.00	1,964.45	0.00	\$116,964.45
* MUTUAL FIRE, MARINE & INLAND PA 12/8/1986	0.00	707.42	0.00	\$707.42
NATIONAL ALLIED TX 10/31/1986	1,378,967.05	217,197.01	0.00	\$1,596,164.06
NEW ENGLAND LA 9/22/1989	6,918,893.50	1,614,462.23	400,134.03	\$8,933,489.76
NORTH AMERICAN INDEMNITY LA 5/26/1992	2,567,683.75	549,211.23	296,837.86	\$3,413,732.84
* NORTH-WEST OR 12/4/1984	0.00	3,958.97	0.00	\$3,958.97
* NORTHEASTERN FIRE PA 6/1/1984	0.00	105.00	0.00	\$105.00
* OHIO GENERAL OH 3/28/1990	185,374.74	56,061.74	24,688.00	\$266,124.48
OLD HICKORY LA 10/31/1991	10,805,921.01	4,123,717.47	1,999,616.42	\$16,929,254.90
* OPTIMUM IL 5/5/1986	0.00	2,120.41	0.00	\$2,120.41

<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
* PACIFIC AMERICAN DE 1/23/1985	233,705.95	52,183.07	0.00	\$285,889.02
PACIFIC MARINE WA 6/7/1989	2,657,806.86	284,163.18	0.00	\$2,941,970.04
PATTERSON INSURANCE CO. LA 3/17/2003	4,990,943.51	3,435,932.11	773,291.12	\$9,200,166.74
* PAXTON PA 6/26/1989	12,000.00	16,757.82	0.00	\$28,757.82
PELICAN STATE MUTUAL LA 2/26/1993	18,569,391.75	5,225,160.48	326,622.33	\$24,121,174.56
PETROSURANCE OK 3/14/2002	513,225.21	105,239.49	0.00	\$618,464.70
PHICO PA 2/1/2002	491,301.91	538,635.47	0.00	\$1,029,937.38
PINNACLE INS. CO. GA 9/20/1999	443,868.50	227,633.14	0.00	\$671,501.64
* PREMIER ALLIANCE CA 8/2/1994	199,218.00	132,983.22	0.00	\$332,201.22
PRESIDENTIAL FIRE & CASUALTY LA 11/13/1991	12,531,864.92	2,721,864.79	598,435.42	\$15,852,165.13
* PROFESSIONAL NY 4/12/1974	67,589.75	88,023.05	0.00	\$155,612.80
* PROPRIETORS OH 8/5/1981	144,658.25	40,673.03	7,648.00	\$192,979.28
PROTECTIVE CASUALTY MO 5/24/1991	5,268,697.30	1,270,152.93	632,627.81	\$7,171,478.04
RECIPROCAL OF AMERICA VA 6/20/2003	575,812.42	253,050.62	0.00	\$828,863.04
* REGAL	0.00	15,618.90	0.00	\$15,618.90
* RELIABLE OH 1/29/1988	110,140.01	21,087.38	0.00	\$131,227.39
* RELIANCE	5,000.00	0.00	0.00	\$5,000.00
RELIANCE NATIONAL PA 10/3/2001	33,451,584.91	13,258,574.83	0.00	\$46,710,159.74
* RESERVE IL 5/7/1979	976,532.67	209,197.16	302,030.80	\$1,487,760.63
ROCKWOOD PA 8/26/1991	24,058,883.62	3,834,900.12	23,089.95	\$27,916,873.69
* S & H CA 4/16/1985	0.00	32.50	0.00	\$32.50
SAVANT LA 11/7/2001	922,833.10	222,316.85	0.00	\$1,145,149.95

<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
* SECURITY CASUALTY IL 12/4/1981	9,651.11	27,178.79	0.00	\$36,829.90
* SOUTH CENTRAL LA 1/5/1989	1,496,640.55	356,707.26	387,532.96	\$2,240,880.77
SOUTHERN AMERICAN UT 3/20/1992	811,116.50	646,500.51	0.00	\$1,457,617.01
* SOVEREIGN FIRE & CASUALTY LA 5/29/1991	7,825,397.25	2,913,123.82	3,382,524.64	\$14,121,045.71
* ST. LOUIS FIRE & MARINE	1,500.00	652.30	0.00	\$2,152.30
* STANDARD FIRE AL 3/5/1985	0.00	13,737.86	0.00	\$13,737.86
* SUMMIT NY 5/28/1975	527,145.12	98,467.34	0.00	\$625,612.46
SUNBELT SOUTHERN LA 12/2/1988	290,415.70	291,635.73	0.00	\$582,051.43
* TEXAS FIRE & CASUALTY TX 11/25/1986	0.00	2,950.08	0.00	\$2,950.08
TRANSIT CASUALTY CA 12/3/1985	28,902,546.27	8,673,001.07	18,868.39	\$37,594,415.73
U.S. CAPITAL NY 11/20/1997	1,959,627.30	1,444,839.07	0.00	\$3,404,466.37
* U.S. INDEMNITY LA 10/13/1989	2,192,153.64	428,503.71	38,849.76	\$2,659,507.11
* UNION INDEMNITY NY 6/16/1985	683,366.39	209,907.69	5,553.00	\$898,827.08
UNITED AGENTS LA 3/3/2002	3,865,710.78	1,510,555.46	172,648.69	\$5,548,914.93
* UNITED BONDING IN 2/18/1971	62,054.83	39,152.58	0.00	\$101,207.41
UNITED COMMUNITY NY 11/10/1995	5,761,414.07	2,391,210.72	166,571.56	\$8,319,196.35
* UNITED SAVINGS LIFE	0.00	273.75	0.00	\$273.75
UNITED SOUTHERN ASSURANCE FL 9/18/1997	1,260,705.58	503,368.81	0.00	\$1,764,074.39
UNIVERSAL SECURITY TN 10/13/1991	1,145,779.85	280,761.14	8,772.65	\$1,435,313.64
VILLANOVA INSURANCE CO. PA 7/28/2003	9,588.40	3,806.56	0.00	\$13,394.96
* WESTERN EMPLOYERS CA 4/19/1991	10,583.52	33,142.56	0.00	\$43,726.08
* WESTERN PREFERRED CASUALTY CO 4/16/1986	0.00	0.00	0.00	\$0.00

<u>COMPANY</u>	<u>LOSSES</u>	<u>EXPENSES</u>	<u>UNEARNED PREMIUMS/ EXPENSES PAID</u>	<u>TOTAL ALLTIME LIGA BILLINGS</u>
* YORKTOWN IL 2/7/1989	174,800.00	7,457.76	0.00	\$182,257.76
TOTALS	\$580,287,321.41	\$192,023,626.77	\$37,548,091.15	\$809,859,039.33
	=====	=====	=====	=====

* - INACTIVE INSOLVENCY



Louisiana Insurance Guaranty Association

2004
Annual Report

March 30, 2005

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Our Mission

To pay covered claims of insolvent property and casualty insurance companies in a prompt, courteous and caring manner at a fair and equitable cost, and also aid the Insurance Department in the detection and prevention of insurer insolvencies.

Board of Directors

2004

Ms. Ann Metrailler
Chairperson

Louisiana Farm Bureau Mutual Insurance
National Association of Independent Insurers

Mr. Terrence Hardin
Secretary

State Farm Mutual Automobile Insurance Co.
National Association of Mutual Insurance Cos.

Mr. W. Jay Luneau
Treasurer

Appointee of the Speaker of the House

Mr. James Davison

Appointee of the Commissioner of Insurance
as a Consumer Representative

Mr. J.E. Brignac, Jr.

Appointee of the President of the Senate

Mr. Michael T. Gray

The Gray Insurance Company

Ms. Margret L. Edwards

Appointee of the Commissioner of Insurance
as a Consumer Representative

Mr. Stephen C. Schrempp

National Automotive Insurance Company
Louisiana Fire and Casualty Insurance Cos.

Mr. Aubrey Temple

Louisiana Workers' Compensation Corporation

Executive Staff

DESIREE WORSLEY

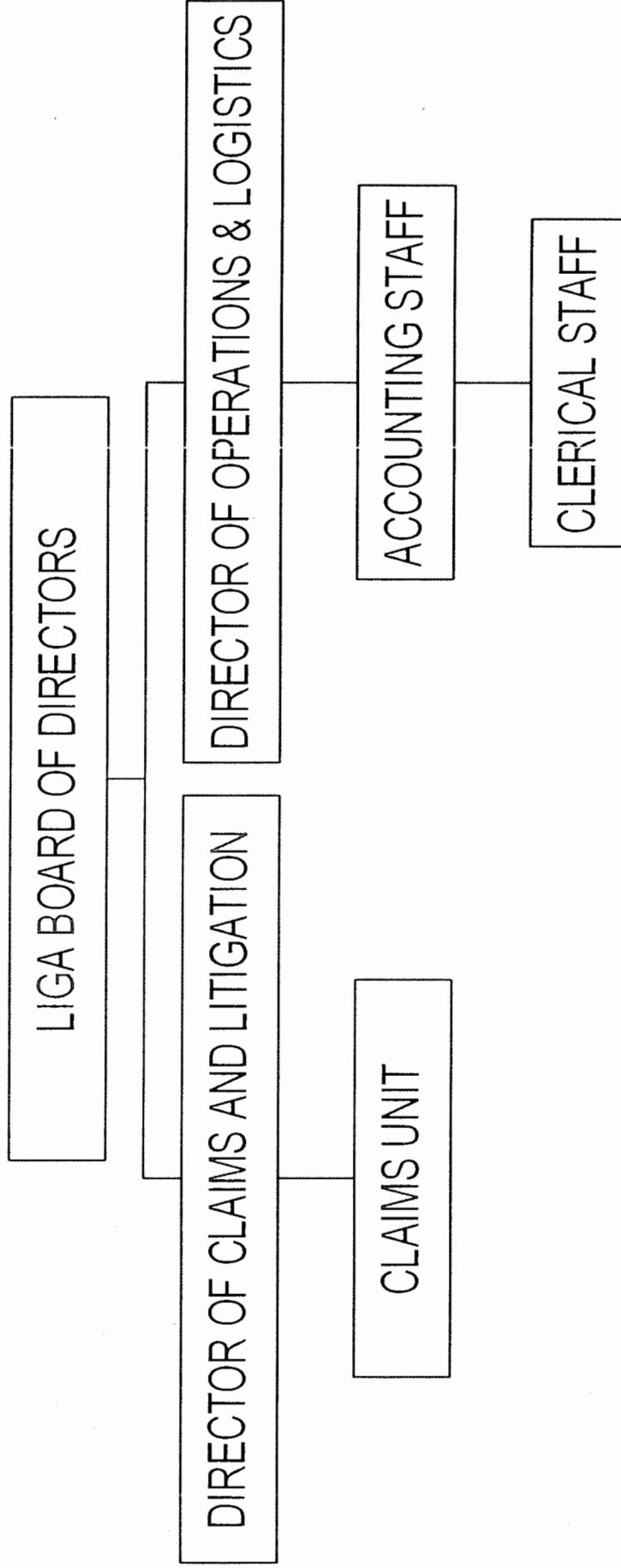
Director of Operations & Logistics

KENNETH H. SCHNAUDER

Director of Claims & Litigation

ORGANIZATIONAL CHART

AS OF
MARCH 30, 2005



March 30, 2005

Hon. J. Robert Wooley, Commissioner
Department of Insurance
State of Louisiana
P.O. Box 94214
Baton Rouge, Louisiana
70804-9214

RE: 2004 Annual Financial Report of LIGA

Dear Commissioner:

Pursuant to *La. R.S. 22:1388*, we are pleased to submit to you LIGA's 2004 Annual Financial Report.

2004 was a highly productive year for LIGA, as a decrease in insolvencies/new claims created the window of opportunity for LIGA to reach a number of milestones:

settled a record number of claims;
collected an unprecedented amount of early access distributions from insolvent estates;
downsized staff and further streamlined operations;
completed an audit of our environmental claims handling;
initiated a new more efficient software accounting program;
revamped our attorney list and qualifications;
completed our headquarters renovation;
passed legislation to reduce our reserve exposure;
operated our first year within the 1% assessment rate cap;
adopted a Standards of Conduct and Employee Handbook;
re-wrote our Plan of Operation; and
re-wrote our Policies & Procedures Manual,

LIGA received two new insolvencies in 2004 (Commercial Casualty of NC Insurance Company of Georgia and Casualty Reciprocal Exchange of Missouri). We anticipate a minimum of two insolvencies in 2005.

Recoveries from liquidators reached a record \$36,634,890.31 collected in 2004.

Total expenditures rose slightly from \$34,757,151. in 2003 to \$35,914,929. in 2004. The number of claims pending at year-end fell from 4,471 in 2003 to 3,767 in 2004.

LIGA's reserves remained in excess of \$1,000,000,000. during 2004, and will expectantly increase this year. Our non-environmental reserves are currently

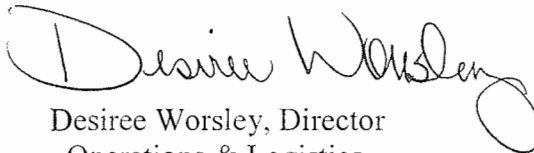
(Page 2, Commissioner Wooley)

\$101,028,349., while the environmental reserve posting is \$1,108,170,000. for a total of \$1.2 billion.

Forecasting future insolvencies, their volume, and the ever-growing environmental litigation files remain our biggest challenges at LIGA in the coming year. LIGA remains committed to operating at its' peak of efficiency through the use of temporary employees and TPA's, enabling us to downsize when the opportunity presents itself for further savings. Our new facility will eliminate escalating rental payments and meet LIGA's needs for decades to come. Finally, it is our committed goal to operate LIGA with minimal or no assessment of our member insurers whenever possible. We believe we have initiated the progressive reform and operational strategy that will enable LIGA to meet these ideals in the years ahead.

LIGA would like to express its appreciation to you, your Department, and the Legislature for their continued support of our reform movement. Enclosed herein is our 2004 Report on Insolvent Companies, 2004 Company Claims Activity, 2004 Report of LIGA's General Counsel, and our Annual Financial Audit for 2004 prepared by Postlethwaite & Netterville.

Respectfully submitted,



Desiree Worsley, Director
Operations & Logistics

*Receipt acknowledged this _____ day of _____, 2005
by _____ of the Louisiana Department of Insurance*

cc: Board of Directors, LIGA
Chairman Carter, House Insurance Committee
Chairman Cain, Senate Insurance Committee
General Counsel, LIGA

DW/lb