

# NCIGA

2018 Annual Report  
North Carolina Insurance Guaranty Association



# INSURANCE GUARANTY ASSOCIATION

## Table of Contents

Message from the Chairman.....	2
Board of Directors .....	3
Subcommittee .....	3
Report of NCIGA Counsel .....	3
Managing Secretary's Report .....	4
Chief Operating Officer's Report .....	5
Balance Sheet & Income Statement .....	6
Claims Paid Detail .....	7-8
Claims Reserved Detail .....	7-8
Shared Services .....	9-10

## General Organizational Information

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Toll Free.....	800-456-5086
Website Address.....	<a href="http://www.ncrb.org/nciga/">www.ncrb.org/nciga/</a>
Physical Address .....	2910 Sumner Blvd. Raleigh, NC 27616

## Management Contacts

Ray Evans .....	Managing Secretary	919-582-1001	rfe@ncrb.org
Donna Kallianos.....	Chief Operating Officer, IGA	919-582-1046	dpk@ncrb.org
Kim Powell .....	Claims Manager	919-645-3180	ksp@ncrb.org
Tammy Choboy .....	Technical and Administrative Manager	919-582-1044	trc@ncrb.org
Vicki Godbold .....	Chief Human Resources Officer	919-645-3170	vcg@ncrb.org
Shelley Chandler .....	Chief Information Officer	919-582-1057	src@ncrb.org
Edith Davis .....	Chief Financial Officer	919-582-1006	etd@ncrb.org



**Allen Houck**  
Chairman

## MESSAGE FROM THE CHAIRMAN

The North Carolina Insurance Guaranty Association had been eagerly awaiting a nice, quiet year, with little new activity and the chance to breathe a bit. Unfortunately, the 2017-2018 fiscal year did not cooperate. Fortunately, outstanding leadership combined with talented staff meant that the Association handled this year's challenges with great success.

The year saw the Association's staffing continue to evolve, with Donna Kallianos completing her first full year as Chief Operating Officer, and overseeing the addition of five new staff members to handle increased claim activity and the retirement of one long-term employee.

In December 2017, the Association activated for the insolvency of Guarantee Insurance Company, a workers' compensation carrier in Florida. This insolvency turned into a larger event for North Carolina than originally anticipated, and it necessitated a quicker than normal response from the Association to ensure that timely payment to claimants continued without interruption. The size of the insolvency also resulted in the need for additional staffing mentioned above.

The Reliance insolvency—the largest in the Association's history—saw the winding up of the estate on a national level. The Association received a final distribution of nearly \$19.5 million from the estate, to bring total receipts in excess of \$80 million, which equaled 80% of the total claim against the estate—a great result for an enormous challenge.

An issue that we discussed last year involved large deductible insureds and the Association's need to pursue all remedies available to it in accordance with our mandate under North Carolina's statutes. In doing so, including litigating matters when necessary, the Association has begun recovery of funds.

Additionally, with respect to our objectives under North Carolina statute, favorable court decisions during the year affirmed the manner in which the Association applies bar date and statute of repose provisions.

The Association's core activities for the year are as follows:

- Net claims paid during the reporting year were \$7.2 million. 190 claims were closed, while 561 new claims were reported.
- The Association refunded \$5 million to member companies. While all refunds were workers' compensation in nature, \$3 million was to the Stock and Mutual WC Trust Accounts. \$8.5 million in assessments were made against member companies during the fiscal year.
- Staff and counsel continue aggressive pursuit of all avenues of recovery, with total recoveries of \$1.1 million collected through August 31, 2018.

Finally, and I hope this does not appear repetitive from past years, the Board would like to again thank Ray Evans for his continued exemplary leadership. We have noted our belief that we have the finest Association leadership and management in the country, and this starts at the top. We are fortunate to have Ray's services as Managing Secretary.

# BOARD OF DIRECTORS

The Plan of Operation provides that the Board of Directors consists of eight directors: seven elected directors, all of whom are member insurers, who shall serve three-year terms or until their successors have been elected and qualified, and one non-voting director, who shall be a property and casualty insurance agent authorized to write insurance for a member company and who is appointed by the Commissioner of Insurance to serve for a three-year term at the pleasure of the Commissioner.

Members	Representative
Allstate Ins. Co.	Scott Morrison
Builders Mutual Ins. Co.	John Boggs
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co.	Gregory Lonnecker
NC Farm Bureau Mutual Ins. Co.	Allen Houck*
State Farm Mutual Auto Ins. Co.	Brianne Jones**
Travelers Indemnity Co.	Matt Massaro
<b>Non-voting Member</b>	
Property & Casualty Agent	John Cook

# SUBCOMMITTEE

The Audit Committee oversees the financial activities of the Association and formulates recommendations for presentation to the Board of Directors.

Members	Representative
NC Farm Bureau Mutual Ins. Co.	Allen Houck *
Builders Mutual Ins. Co.	John Boggs
Nationwide Mutual Ins. Co.	Gregory Lonnecker

\* Chairman  
 \*\* Vice-chair

# REPORT OF NCIGA COUNSEL



**Christopher J. Blake**  
 Partner, Nelson Mullins Riley & Scarborough LLP



**Joseph W. Eason**  
 Partner, Nelson Mullins Riley & Scarborough LLP

In the past year, the Association continued its involvement in a number of cases related to the bar date provision of the Guaranty Act. In the case of *Booth v. Hackney*, the Full Industrial Commission certified to the North Carolina Court of Appeals questions concerning whether the bar date provision was unconstitutional under either the North Carolina or United States Constitutions. In an opinion issued on November 17, 2017, the North Carolina Court of Appeals upheld the constitutionality of the bar date and statute of repose provisions, and rejected all arguments that were advanced by the plaintiff. Thereafter, attempts at further appeal were dismissed and rejected by the North Carolina Supreme Court. As a result of these decisions, all constitutional challenges to the bar date and statute of repose provisions have been rejected, and the *Booth v. Hackney* case is again before the Full Industrial Commission for a decision on the merits of those statutory provisions. The Association expects a decision from the Full Industrial Commission by the end of 2018, and that final decision should have an impact on other workers' compensation cases in which the bar date and statute of repose have been raised as a bar to claim payments by the Association.

The past year has also seen the NCIGA very active in pursuing recoveries from a number of policyholders who purchased workers' compensation policies from insolvent insurers that were written subject to large deductibles. On such claims, the Association is obligated to pay the covered claim from the first dollar, but then is entitled to seek recovery from the policyholder of any covered claim payments within the amounts of the large deductible. In some of these cases, the Association has been able to achieve amicable resolutions of the Association's claims.

In others, the policyholders are pursuing legal defenses to the Association's claims, which will require court resolution. The Association will continue to pursue actively its rights to seek recoveries from these large deductible policyholders.

The Association has continued to focus on legal issues arising from insolvent insurer estates, working with domiciliary receivers on expense and reinsurance claim audits, large deductible recoveries, and early access payments. The Association is working with the North Carolina Department of Insurance in connection with the domiciliary estate proceeding for CAGC Insurance Company. By the end of 2018, the Association expects that it will receive an early access distribution from the CAGC estate. In the Reliance insolvency, the Association has received a final distribution from the Reliance liquidator, so the Association's involvement in that long-running insolvency has come to an end. Finally, in connection with the Illinois insolvency proceeding for Lumbermens Mutual Group, a decision was issued by the Illinois Court of Appeals that was in favor of the Association's position under North Carolina law that special deposit proceeds cannot be offset against the Association's claims for administrative expenses. As the receivers of other insolvent insurer estates make claim priority determinations for different categories of claims in those estates, the Association will defend its interests, as necessary, to ensure that the Association receives the maximum recovery on its claims against each of these insolvent insurer estates.

The Association and counsel remain proactive in monitoring events and developments that may impact the Association.

# MANAGING SECRETARY'S REPORT

2018 has been a successful year in many ways. Foremost, our management team, with barely a year under their belts, has done really well in spite of the challenges of a December 2017 insolvency, Guarantee Insurance Company, that doubled the number of open claims and necessitated the hiring of an additional four staff members. With Donna Kallianos leading the management staff of Kim Powell, Claims Manager; Tammy Choboy, Technical and Administrative Manager; and Sloan Bayles, Claims Supervisor; they performed very well in overcoming the difficulties of a really ugly (there is no other word) insolvency.

What impressed me most is that they not only met this challenge, but also made great progress towards our other objectives of

- maintaining the "fire house,"
- monitoring and improving the electronic environment,
- maintaining an experienced and professional staff,
- managing reserves so that future insolvencies have benefit of the maximum assessment,
- recovering as much as possible from each estate, and
- vigorously defending our statutory obligations.

While each of these will be addressed more fully later in this report, here are a few of my thoughts about each. That we could respond to a worker's compensation insolvency with virtually no warning, where the carrier had literally no money, strongly suggests the "fire house" is being maintained. While there are still growing pains with the oversight and management of the operating system we installed in 2016, it has added a great deal of effectiveness to our operations. We continue adjusting and adding enhancements that will make this a viable platform for us for years to come. That we have three of our management staff who have been promoted from within the organization and that the four adjusters we have added this year are all experienced and have worked for large carriers, suggests we have a great staff. The IGA has accumulated nearly \$100 million in assets, sufficient to pay claims for many years. This, in great part, is the result of effective recovery efforts. And finally, as the lawyers will detail later, there have been a number of successful legal actions this year, one of which has a serious positive impact on the entire guaranty fund community. And, to add an exclamation point, we are still pretty much on target to meet the budget. Together, these add up to a successful year.

Help, encouragement, and counsel from the Board and especially the Chair, Allen Houck, has been important in this successful year, and their willingness to provide the resources for our work makes it possible to keep our statutory obligation of limiting the impact of insurance company insolvencies to policyholders, claimants, and vendors.



**Ray Evans**

Managing Secretary, IGA

# CHIEF OPERATING OFFICER'S REPORT



I write this report marking my first full year serving as the Chief Operating Officer of the Insurance Guaranty Association. I had been the COO barely five months last year when preparing the 2017 report and spoke of ongoing change and transition due to management changes — three of the four positions — as well as integrating a new core operating software system. I had expectations of developing a new sense of normalcy and routine operations, but now appreciate the old adage of “the only constant is change” — at least if you strive for and demand excellence.

So change continues. The management team has been in place a full year, but continues its learning curve. With the approval and support of Mr. Evans, our managing secretary, the Association has added five additional associates, four adjusters and one clerical. Our intent is to develop a more technically strong organization by hiring the right type

of experience and temperament to meet the challenge of more complex cases and reporting requirements. From an operating system perspective, we are taking better advantage of available functionality of the SIMS system to enhance tracking abilities for potential recoveries, types of insureds/claims and litigation, and building new reports/enhancements to assist in the adjustment of claims and creation and transfer of data, as well as assisting with administrative duties of the Association.

In December 2017, we activated for the insolvency of Guarantee Insurance Company (GIC), a Florida domiciled carrier, which necessitated some of the hiring of the above referenced staff. This insolvency more than doubled the number of our pending open claims and presented unique issues for the Association due to the abruptness of the insolvency, its dire financial condition hampering the receivership,

and the inability of the receiver to convert quickly claim data required to initiate indemnity payments to NC residents.

Staff continues to work through the GIC claims and others (nearly 500 new claims) but has matters under control. After all, Mr. Evans has always stressed our need to plan for the future, be prepared for the new insolvency, all while fine-tuning our processes and efficiencies.

The year has seen the winding down of the Reliance, Legion, and Villanova insolvencies, with receipt of \$19.5 million as final distribution from Reliance and \$10 million approved by the Courts, but not yet received from the Legion and Villanova estates. We will continue handling those remaining claims for years, but the respective estates will be closing within the next year after nearly 18 years of existence.

Staff and counsel continue aggressive pursuit of receivables, including large deductible insureds, initiating litigation to enforce collection of outstanding monies owed the Association. To date, recoveries exceed \$1 million for the report year. Counsel will report on positive decisions from the NC Court of Appeals as well as the NC Supreme Court in the *Booth v Hackney* matter, finding that neither the Guaranty Act's bar date or statute of repose provisions violates the North Carolina or United States Constitutions.

So it has been a very busy year, but we have been successful in our results. I freely admit that I wait for more change, as that appears to be the norm, but what does not change is our dedication to fulfilling our mission statement and commitment to excellence as an organization.

**Donna Kallianos**  
Chief Operating Officer

## Balance Sheet

Year Ending	August 31, 2018 (Preliminary)	August 31, 2017
<b>Assets</b>		
Cash (Checking Account)	564,236	802,077
Investments	97,245,065	81,298,749
Assessments Receivable	-	-
Other Assets	-	-
<b>Total Assets</b>	<b>\$97,809,301</b>	<b>\$82,100,826</b>
<b>Liabilities &amp; Fund Equity</b>		
Accounts Payable	-	-
Claims Liability	73,200,000	70,546,416
Unearned Premium Liability	-	-
Claims Expense Liability	7,200,000	6,432,194
Other Liabilities	(2,076)	(1,689)
<b>Total Liabilities</b>	<b>\$80,397,924</b>	<b>\$76,976,922</b>
Fund Equity	17,411,377	5,123,904
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$97,809,301</b>	<b>\$82,100,826</b>

## Income Statement

Year Ending	August 31, 2018 (Preliminary)	August 31, 2017
<b>Income</b>		
Membership Fees	600	550
Interest Income	1,164,833	1,552,359
Assessments Income	8,500,000	1,223
Miscellaneous Income	21,170,889	1,867,445
<b>Total Income</b>	<b>\$30,836,322</b>	<b>\$3,421,577</b>
<b>Expenses</b>		
Refund to Commissioner/Liquidators	-	2,680,743
Refund to Member Insurers	5,000,000	7,879,998
Operating Expenses	3,157,428	3,138,709
Claims Paid (Net)	6,280,137	4,629,597
Claim Expenses	1,047,427	1,000,728
Premium Refunds	9,624	-
<b>Total Expenses</b>	<b>\$15,494,616</b>	<b>\$19,329,775</b>
<b>Net Income/(Loss)</b>	<b>\$15,341,706</b>	<b>\$(15,908,198)</b>

## Claims Paid Detail

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
Affirmative Ins. Co.					\$3,282	\$3,282
Atlantic Mutual Ins. Co.	\$168,289	\$15,153	\$183,442			
CAGC Ins. Co.	\$551,797	\$69,802	\$621,599			
CastlePoint Nat. Ins. Co.		\$537	\$537			
Casualty Reciprocal	\$15,018	\$10,577	\$25,596			
Centennial Ins. Co.	\$30,841	\$471	\$31,311			
Credit General Ins. Co.	\$325,766	\$35,913	\$361,679			
Employers Casualty Co.	\$13,714	\$1,500	\$15,215			
Freestone Ins. Co.	\$587,852	\$166,317	\$754,169			
Fremont Indemnity Co.	\$52,074	\$4,823	\$56,897			
Gramercy Ins. Co.						
Guarantee Ins. Co.	\$1,250,171	\$254,703	\$1,504,873			
Home Ins. Co.	\$248,432	\$39,835	\$288,268			
Legion Ins. Co.	\$214,391	\$23,378	\$237,769			
Lumberman Mut. Group	\$1,553,683	\$146,393	\$1,700,076		\$1,019	\$1,019
Lumbermens' Underwriting Alliance	\$173,315	\$76,423	\$249,738			
Park Ave P&C	\$39,257	\$11,413	\$50,670			
Reliance Ins. Co.	\$1,578,087	\$140,004	\$1,718,092			
Shelby Ins. Co.	\$6,787	\$1,441	\$8,228			
South Carolina Ins.	\$33,197	\$18,445	\$51,643			
ULLICO Cas. Co.	\$0	\$45,388	\$45,388			
Villanova Ins. Co.	\$2,228	\$202	\$2,430			
888 WC Mutual Trust	\$222,536	\$69,685	\$292,221			
999 WC Stock Trust	\$75,108	\$3,425	\$78,532			
<b>Gross Total</b>	<b>\$7,142,543</b>	<b>\$1,135,829</b>	<b>\$8,278,372</b>		<b>\$4,301</b>	<b>\$4,301</b>

## Claims Reserved Detail

	WC				Auto			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
Affirmative Ins. Co.					\$30,000	\$2,718	\$32,718	1
Atlantic Mutual Ins. Co.	\$2,959,001	\$104,158	\$3,063,159	5				
CAGC Insurance Co.	\$6,634,874	\$420,366	\$7,055,239	14				
CastlePoint Nat. Ins. Co.								
Casualty Reciprocal	\$1,718,428	\$86,404	\$1,804,832	7				
Centennial Ins. Co.	\$284,059	\$10,402	\$294,461	2				
Credit General Ins. Co.	\$4,783,736	\$250,858	\$5,034,595	5				
Employers Casualty Co.	\$98,495	\$15,895	\$114,390	2				
Freestone Ins. Co.	\$2,829,347	\$385,737	\$3,215,084	70				
Fremont Indemnity Co.	\$1,341,936	\$40,690	\$1,382,626	5				
Gramercy Ins. Co.								
Guarantee Ins. Co.	\$7,504,206	\$1,405,588	\$8,909,793	363				
Home Insurance Co.	\$3,742,676	\$554,072	\$4,296,749	19				
Legion Insurance Co.	\$4,364,755	\$428,445	\$4,793,200	15				
Lumberman Mut. Group	\$12,112,472	\$1,166,142	\$13,278,614	50	\$12,641	\$5,566	\$18,207	1
Lumbermens' Underwriting Alliance	\$1,605,556	\$92,745	\$1,698,301	8				
Park Ave P&C	\$1,437,840	\$106,931	\$1,544,771	1				
Reliance Insurance Co.	\$18,942,041	\$1,642,545	\$20,584,586	52				
Shelby Insurance Co.	\$203,445	\$22,232	\$225,677	1				
South Carolina Ins.	\$117,039	\$93,106	\$210,145	6				
ULLICO Cas. Co.		\$1,794	\$1,794	1				
Villanova Insurance Co.	\$255,504	\$36,195	\$291,698	2				
888 WC Mutual Trust	\$1,940,904	\$302,026	\$2,242,929	28				
999 WC Stock Trust	\$914,986	\$76,729	\$991,715	3				
<b>Total</b>	<b>\$73,791,299</b>	<b>\$7,243,058</b>	<b>\$81,034,357</b>	<b>659</b>	<b>\$42,641</b>	<b>\$8,284</b>	<b>\$50,925</b>	<b>2</b>



## Claims Paid Detail

	All Other			Total
	Indemnity Paid	Expense Paid	Total Paid	
Affirmative Ins. Co.				\$3,282
Atlantic Mutual Ins. Co.				\$183,442
CAGC Ins. Co.				\$621,599
CastlePoint Nat. Ins. Co.		\$128	\$128	\$665
Casualty Reciprocal				\$25,596
Centennial Ins. Co.				\$31,311
Credit General Ins. Co.				\$361,679
Employers Casualty Co.				\$15,215
Freestone Ins. Co.				\$754,169
Fremont Indemnity Co.				\$56,897
Gramercy Ins. Co.				
Guarantee Ins. Co.				\$1,504,873
Home Ins. Co.				\$288,268
Legion Ins. Co.				\$237,769
Lumberman Mut. Group				\$1,701,095
Lumbermens' Underwriting Alliance				\$249,738
Park Ave P&C				\$50,670
Reliance Ins. Co.				\$1,718,092
Shelby Ins. Co.				\$8,228
South Carolina Ins.				\$51,643
ULLICO Cas. Co.				\$45,388
Villanova Ins. Co.				\$2,430
888 WC Mutual Trust				\$292,221
999 WC Stock Trust				\$78,532
<b>Gross Total</b>		<b>\$128</b>	<b>\$128</b>	<b>\$8,282,801</b>
				<b>Recoveries</b> \$(1,084,749)
				<b>Net Claims Expenditure</b> \$7,198,052

## Claims Reserved Detail

	All Other				Total	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserves	Total Pending
Affirmative Ins. Co.					\$32,718	1
Atlantic Mutual Ins. Co.	\$60,002	\$86,382	\$146,384	3	\$3,209,543	8
CAGC Insurance Co.					\$7,055,239	14
CastlePoint Nat. Ins. Co.						
Casualty Reciprocal					\$1,804,832	7
Centennial Ins. Co.					\$294,461	2
Credit General Ins. Co.					\$5,034,595	5
Employers Casualty Co.					\$114,390	2
Freestone Ins. Co.					\$3,215,084	70
Fremont Indemnity Co.					\$1,382,626	5
Gramercy Ins. Co.						
Guarantee Ins. Co.					\$8,909,793	363
Home Insurance Co.					\$4,296,749	19
Legion Insurance Co.					\$4,793,200	15
Lumberman Mut. Group	\$5,130	\$815	\$5,945	5	\$13,302,766	56
Lumbermens' Underwriting Alliance					\$1,698,301	8
Park Ave P&C					\$1,544,771	1
Reliance Insurance Co.	\$300	\$200	\$500	2	\$20,585,086	54
Shelby Insurance Co.					\$225,677	1
South Carolina Ins.					\$210,145	6
ULLICO Cas. Co.					\$1,794	1
Villanova Insurance Co.					\$291,698	2
888 WC Mutual Trust					\$2,242,929	28
999 WC Stock Trust					\$991,715	3
<b>Total</b>	<b>\$65,432</b>	<b>\$87,397</b>	<b>\$152,829</b>	<b>10</b>	<b>\$81,238,111</b>	<b>671</b>

# SHARED SERVICES

## Shelley Chandler

Chief Information Officer



The Information Services group continues to leverage technology advances to enhance our business processes and to fulfill the needs of our customers. Through daily operations and project work, it is our duty not only to support the organization, but to introduce innovative strategies that guarantee robust systems and applications, and allow for expansion in areas where progress is desired.

A significant amount of effort is spent resolving daily issues that impact productivity and keep essential processes moving forward. Extensive planning goes into resource allocation for IT staff; however, we remain flexible in our commitment to provide our customers with the highest level of efficiency wherever the need arises.

Project work also contributes to our goal of promoting efficiency. From an infrastructure standpoint, we have implemented projects that continually improve our environment and our security posture. In 2018, some of the most significant upgrades we performed were to our storage network, increasing our internet bandwidth, upgrading our server and desktop operating systems, and modernizing enterprise services to current releases and versions.

Our portfolio management team continues to review projects from the business unit on a regular basis to ensure that project needs align with business goals and have compelling value to substantiate the resources needed to execute and implement. The North Carolina Insurance Guaranty Association is built upon systems, tools, and applications, so there is always a challenge to select the right projects. We have to evaluate requests that improve existing system functionality and those that advance the business process to a higher level. We feel strongly that our project submission process takes the guess work out of these critical decisions. Two projects of note for 2018 are modernizing our website and customizations for the processing system.

With reported data breaches increasing approximately 45% from 2015 to 2016 and again from 2016 to 2017, we continue to have an increased focus on security.

We work to protect our environment and prevent breaches by continuing to adhere to the belief that the best defense against security risks is employee training. We provide monthly security training and routine phishing simulations to teach employees how to defend against common and emerging threats and to ensure our associates are educated on how to protect the data they are entrusted with to execute their jobs. We also continue to harden and isolate our systems by upgrading perimeter security and limiting system permissions to only those users that require access to perform their job duties.

In order to predict and prevent security breaches, we continued to work with professional security experts to conduct regular risk assessments that alert us to any risks (or threats) in advance so that we can remediate promptly and appropriately.

While we have never experienced a major business interruption, it is important that we are prepared to detect and respond to potential events. In early 2018, we changed our cyber security insurance policy to include significant response resources in the event of a breach. Our outside security consultant also conducted a cyber readiness review to provide strategic guidance on effectively detecting, containing, eradicating, and remediating suspected incidents and their impact on our business. This provides reassurance to our customers that we are aware and prepared to facilitate business recovery should an incident occur.

We look forward to expanding our capabilities of enhancing our customer experience through technology while ensuring security of the data we protect.

## Vicki Godbold

Chief Human Resources Officer



*"Unleash the potential that is in another and you unleash the potential that is in you."*

— Matshona Dhliwayo

Our approach to Human Resources is strategic and comprehensive, with a focused commitment to the Organization's most valued assets—our people. Facility Services mission statement is to provide a secure and

comfortable work environment along with mail and receptionist services. Continuing an Associate Performance Evaluation project started in 2016, this year we updated the associate job descriptions and integrated those enhancements into the 2017 associate evaluations. During the year, the Association added four new associates to staff.

Our Wellness Program consists of

- a partnership with WakeMed Hospital,
- a partnership with the Performance Athletic Center (EXOS),
- a partnership with the NC Prevention Partners,
- annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10k steps a day,
- flu shots provided for associates on-site, and
- certification in First Aid, CPR and AED, for a third of our workforce through the American Red Cross.

On-site training this year consisted of wellness seminars, with off-site training provided for new management staff.

Community Service involvement by our associates this year included the United Way and the NC Food Bank.

## Edith Davis

Chief Financial Officer

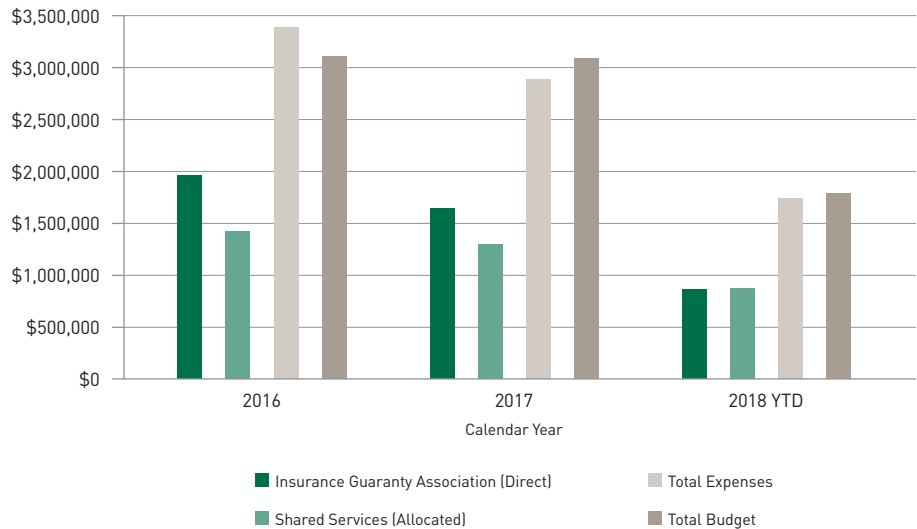


The past year has been one of growth in so many ways. There has been growth in the expertise of staff in new positions, myself included. We have spent significant time and effort reviewing

current methodologies and increasing our process documentation and cross training. The Association has also experienced growth in the number of insolvencies and claims, resulting in increases in almost every facet of the business, including staff size, investments, and expenses.

The financial position is summarized in the exhibits on page six, which reflect the comparative balance sheets and income statements for the latest two fiscal years ending August 31. The assets of the Association totaled approximately \$98 million on August 31, 2018—an increase of about 19% or \$15.7 million from a year ago. The net claim and claim expense payments totaled \$7.3 million over the past 12 months—an increase of 36% over the prior report year, primarily the result of a new insolvency activated in late 2017. Income for this year was approximately \$30.8 million, and the big drivers of the \$27.4 million increase over last year included \$20.8 million in distributions from liquidators, including \$19.5 million from the estate of Reliance, and \$8.5 million in assessments in late 2017 to fund the new and current insolvencies. This was partially offset by \$5 million in refunds to member companies for older insolvencies. The reserves grew as well to \$80.4 million as of fiscal year's end, an increase of \$3.4 million over the August 31, 2017 balances. The new insolvency was again the biggest contributor to the increase.

North Carolina Insurance Guaranty Association Administrative Expenses



Administrative Expenses	2016	2017	Thru June 2018
Insurance Guaranty Association (Direct)	\$ 1,969,364	\$ 1,646,966	\$ 866,340
Shared Services (Allocated)	\$ 1,429,825	\$ 1,270,484	\$ 879,684
Total Expenses	\$ 3,399,189	\$ 2,917,450	\$ 1,746,024
Total Budget	\$ 3,116,521	\$ 3,110,146	\$ 1,800,216

The Association's administrative expenses are comprised of the direct costs related to the specific activities of the Association as well as the allocated expenses of the departments whose services are shared along with the Rate Bureau and Reinsurance Facility. The table and chart included in this report reflect a summary of the direct and allocated expenses for the prior two years on a calendar basis and the first half of 2018, which illustrate the Association's administrative expenses to be within budget for both the current and prior period.

The audit firm of Johnson Lambert performed the annual review of the Association's financial records and once again issued a clean opinion. Our risk management initiatives included the Association, in conjunction with its sister organizations, putting in place a significantly more robust cyber liability insurance program in early 2018.

It has been a challenging first year for me with the Association and a great learning opportunity, and I look forward to working with members of management, the Board, and counsel in the coming year.

# NCIGA

North Carolina Insurance Guaranty Association

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