

NCIGA

NORTH CAROLINA INSURANCE GUARANTY ASSOCIATION

The NCIGA Team



Edith Davis
Chief Financial Officer



Shelley Chandler
Chief Information Officer



Vicki Goldbold
Chief Human Resources
Officer



Allen Houck
Chairman-Board of
Directors

Board of Directors

Members	Representative
Allstate Ins Co	Rick Pierce
Builders Mutual Ins Co	Chris Wetzel
Erie Insurance Co	Reginald Hewett
Nationwide Mutual Ins Co	Michael Sprumont
NC Farm Bureau Mutual Ins Co	Allen Houck
State Farm Mutual Auto Ins Co	Nicole Manduca
Travelers Indemnity Co	D. Keith Bell
Non-voting Member	Representative
Property & Casualty Agent	John Cook

Audit Subcommittee

Members	Representative
NC Farm Bureau Mutual Ins Co	Allen Houck
Builders Mutual Ins Co	Chris Wetzel
Nationwide Mutual Ins Co	Michael Sprumont

Managing Secretary's Report

I am pleased to present the 2023 Annual Report for the North Carolina Insurance Guaranty Association. This year has been a remarkable one for the Guaranty Association as they have successfully responded to another insolvency, expanded their team, implemented technology improvements, and emerged stronger than ever.

This year brought the second property insolvency in 10 months. The Guaranty Association staff quickly and efficiently positioned themselves to handle the insolvency, including challenges with timely receipt of complete claims data and identifying, securing, and training staff to handle the increased workload. Donna and her team once again did a phenomenal job in meeting the Guaranty Association's obligations and supporting impacted policyholders.

While the Guaranty Association stands ready to respond to an insolvency, there are also core responsibilities that must carry on. One of those responsibilities is ensuring there is a succession plan for the critical aspects of our operations. As we look towards the future, we recognize the importance of grooming the next generation within our organization. We have been engaged in improving and expanding our performance management program, developing talent and skills in our associates, and developing strategies to ensure a smooth transition of key roles. Our focus on succession planning not only ensures continuity, but also fosters a culture of continuous learning, innovation, and empowerment within our organization.

Another core responsibility is ensuring that the regulatory framework in which the Guaranty Association operates is evolving with the economic conditions and policyholder needs. With this in mind, the Guaranty Association worked with the North Carolina Legislature to propose updates to the North Carolina Insurance Guaranty Act to increase the statutory cap from \$300,000 to \$500,000 per covered claim to provide an additional level of protection to North Carolina policyholders and to amend Article 30 of the Insurance Code to address large deductible workers' compensation insurance policies.

Looking forward, we anticipate continued industry challenges, including the impact of economic uncertainty and climate change, and also embrace

workplace changes which have brought greater emphasis on flexibility, continuous learning, and growth. Our hybrid work schedule has been a success and will continue for the foreseeable future. This shift has not only allowed us to contemplate a new work place next year, but has also enabled us to provide our associates with a better work-life balance.

In closing, I would like to express my gratitude for the support and involvement of our Board of Directors, support and guidance from our counsel at Nelson Mullins, and the dedication of our associates who are vital to the success of the Guaranty Association. Thanks to all of you for your contributions to the organization.

Joanna Biliouris
Managing Secretary

2023 Goals



Maintaining effective and efficient operations, including adequate staffing to ensure timely payment of claims



Administering claims effectively and managing reserves



Effectively managing litigation



Maintenance of accurate claims records



Being a part of the broader insurance Guaranty community

General Counsel's Report

Legislative Changes

Two pending NCIGA statutory amendments are under consideration by the General Assembly.

Statutory Cap Increase

Increase in the statutory cap from \$300,000 to \$500,000

Large deductible

Amendment to the Insurance Code to address large deductible workers' compensation policies

NCIGA Liquidation Proceedings

- Continues to monitor progress of insurance liquidation proceedings in other states
- Recently negotiated a successful resolution of the Association's final claim in the longstanding insolvency of The Home Insurance Company in New Hampshire
- Monitors early access proposals from domiciliary liquidators to ensure compliance with NC law

CMS Litigation

- To establish that the NCIGA is not a primary plan and has: (a) no obligation to reimburse Medicare for secondary payments; and (b) no obligation to continue burdensome Section 111 reporting
- Seeking to obtain same legal result as in *CIGA v. Azar*, 940 F.3d 1061 (9th Cir. 2019)
- Initial efforts to have this issue decided in federal courts were dismissed for failure to exhaust remedies through Medicare appeal process.
- NCIGA is now focused on a conditional payment claim at the last appeal level, seeking its return to federal district court through the administrative process.



P&C Insolvencies

The recent insolvencies of Lighthouse Insurance Company and United Property & Casualty Insurance Company (“UPC”) have focused the NCIGA’s time and resources on claims arising under homeowner’s insurance policies.

Many of the claims arise from hurricane claims that had been handled by these insolvent insurers, including first-party litigation claims alleging both claims for policy benefits and extra-contractual claims for insurer bad faith and unfair and deceptive trade practices.

The NCIGA has so far been successful in navigating these complex claims and relying on provisions of the Guaranty Act and prior court precedent in fulfilling its statutory obligations.

Other Litigation

Vizcaino v. Watkins & Shepard Trucking

Litigation was resolved in the NCIGA’s favor through the Industrial Commission and appellate courts.

Following completion of the appeal process, the NCIGA successfully negotiated reimbursement of amounts paid from Arch Insurance Company without need for further litigation.

General Counsel Team



Christopher J. Blake

Partner, Nelson Mullins
Riley & Scarborough, LLP



Joseph Eason

Partner, Nelson Mullins
Riley & Scarborough, LLP

Neil Thomas v. Century Employer Organization

Litigation involved the issue of special employment in the context of a temporary staffing agency and a workers' compensation claim.

The litigation was not resolved in the NCIGA’s favor.

The NCIGA disagrees with the decision and will continue to monitor other claims which present similar issues in a claim involving special employment.

Chief Operating Officer's Report

The increased frequency of severe storms across the United States has heightened the potential for climate-related risks and reinforced the importance of the guaranty fund system. 2023 was another example of how catastrophic damages resulting from powerful hurricanes contributed to the insolvency of yet another property carrier with the February 2023 downfall of United Property and Casualty Insurance Company ("UPC"). The North Carolina Insurance Guaranty Association ("NCIGA") jumped into action and activated for the Florida-domiciled insolvency, preparing to handle receipt of hundreds of property losses as well as over 7500 unearned premium claims. With little notice to secure necessary resources, the Association utilized its creativity and entered into an arrangement with a non-profit property claims organization to assist with adjustment of losses, ensuring statutory responsibilities (outlined to the right) were met for North Carolina policyholders through adherence of its obligations set out under the North Carolina Insurance Guaranty Act (N.C. Gen. Stat. §58-48-1).

UPC being the second property insurance insolvency occurring within the last year and following shortly after the liquidation of Lighthouse Property Insurance Corporation allowed the Association to "weather the storm" through application of recent experiences and newly developed plans and processes.

Statutory Obligations



Avoid Excessive Delay in Payment

Step in quickly to service the insurance consumers of North Carolina.



Avoid Financial Loss

to claimants or policyholders because of the insolvency of an insurer.



Detection & Prevention of Insurer Insolvencies

Monitoring insurance writers of North Carolina's financial health



Assess the Cost Among Member Insurers

Provide a mechanism for payment of covered claims.



"Storms draw something out of us that calm seas don't."

—Bill Hybels

Well-Defined Insolvency Readiness Plan



Storm Preparedness

- Pre-Insolvency Planning (Early Involvement of the NCDOL)
- Securing Accurate Insolvency Data
- Evaluation of Staffing
- Communication Planning for Insolvency Inquiries (Insured, Claimant and Interested Parties)
- Prompt Notice to NCIGA Shared Services (Finance, IT & HR)

Assessing the Damages

- Securing Electronic Claim Records from the Receiver
- Claim Review and Reserve Evaluation
- Determination of Special Deposits
- Assessment Recommendations to the Board of Directors



Impact

- Collection of Assessments from Member Companies
- Payment of Policyholder Claims
- Financial Reporting to the Estate
- Meeting Statutory Obligations under the NC Insurance Guaranty Act

Inherent in the operational success of the Association and its ability to handle new insolvencies such as UPC is succession planning, a 2023 identified goal and a current focus of the insurance industry. The addition of experienced staff due to an increase in claims volume created the opportunity to broaden and enhance process documentation, allowing for better cross-training of key positions and the ability to shift responsibilities where needed. 2023 focused on developing our most valued asset—our people—in order to maintain the structural integrity of the NCIGA in the event of the unexpected.



Information Technology (“IT”) initiatives were extensive during 2023 for both the Association and our sister organizations (NCRB & NCRF). However, none was more important than security, which remains paramount to ensure data integrity, business operations, and financial stability. IT efforts continued throughout the year with security training for staff, successful phishing simulations, and the rejection of over 125,000 emails due to threat concerns.

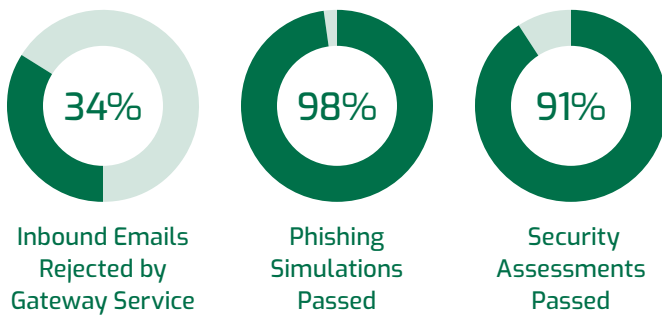
The 2023 Portfolio Process, a major endeavor managed by IT to prioritize Software Development resources based on organizational need/request, slated seven projects for the NCIGA, with five released to production through fiscal year and an anticipated six completed by calendar year’s end. The Association continues to look for operational efficiencies through system improvements and attributes several implemented during 2023 to opportunities identified in the course of handling recent property insolvencies.

2023 has also been an active year from a Human Resources and Facility Services perspective with the onboarding of numerous staff across the organizations in addition to its primary responsibilities of building maintenance and security management. Facility Services continued to play an instrumental role during 2023 in assisting the Association with administrative tasks due to heightened insolvency activity. Their team commitment enabled the NCIGA to leverage its available resources and remain vigilant in our fiduciary responsibilities to member companies.

New Associates Added



IT Statistics



In closing, it has been another busy year for the NCIGA with a snapshot of results, reserves, and payments to follow this report. I am extremely grateful to my staff, Shared Services, Association counsel, the Board, and Managing Secretary Joanna Biliouris for the continued support and guidance in helping to make this another successful year for not only the Association, but the policyholders of North Carolina.

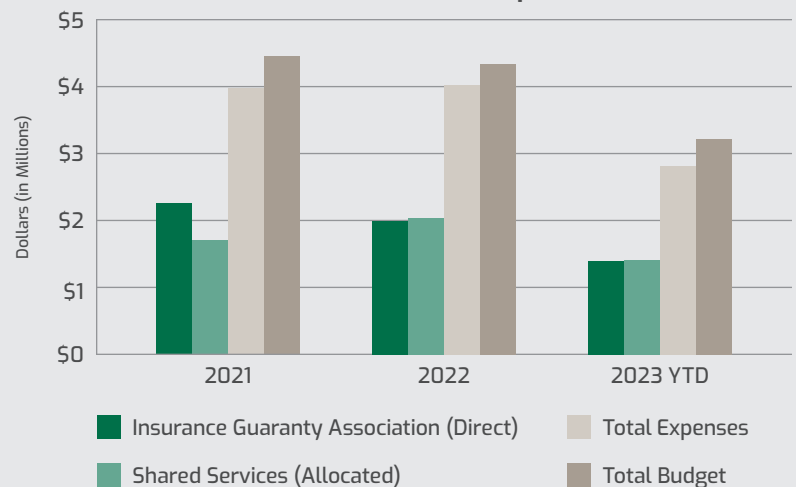
Donna Kallianos, Chief Operating Officer

The Association works closely with Finance, and 2023 was no exception due to increased insolvency activity. Assessments were timely issued and collected, interest income was flat despite a decline in the investment balance, and efforts extended throughout the year resulted in a clean opinion of the NCIGA’s December 31, 2022 financial records issued by the audit firm of Johnson Lambert.

Fiscal Year Numbers Ending August 31, 2023

- Assessments were 52% lower than 2022.
- Total net claims paid, claims expense and unearned premium refund payments decreased 21% over 2022.
- Loss Reserves decreased 7% over 2022.
- Fund Equity decreased \$4.5 million over 2022.
- CY 2022 operating expenses were approximately 7% under budget.

Administrative Expenses



NCIGA

Year in review

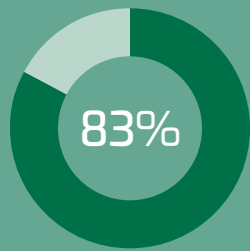
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Insolvency
Activation

Assessments

\$12 Million

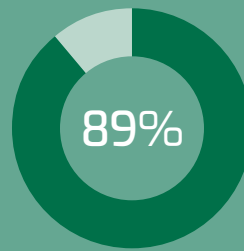
Total assessed against
member insurers



Assessments—all other
driven by property insolvency

\$9 Million

Total refunds to
member insurers



Refunds for Workers' Compensation

Property Claims

\$5.4M

UEP Claims Paid

8,692

UEP Checks Issued

\$2.2M

Property Damage
Claims Paid

Workers' Compensation Claims

\$4.2M

Gross Claims Paid

\$83M

Reserves

Claims Data

\$825K

Recoveries

15,370

Claims Closed

Balance Sheet

Year Ending	August 31, 2023 (Preliminary)	August 31, 2022 (Final)
Assets		
Cash (Checking Account)	\$ 7,600,000	\$ 7,400,000
Investments	110,200,000	116,000,000
Assessments Receivable	400,000	4,800,000
Other Assets	-	-
Total Assets	\$ 118,200,000	\$ 128,200,000
Liabilities & Fund Equity		
Accounts Payable	\$ 600	-
Claims Liability	84,300,000	88,100,000
Unearned Premium Liability	-	-
Claims Expense Liability	5,800,000	5,750,000
Other Liabilities	(1,700)	(1,300)
Total Liabilities	\$ 90,098,900	\$ 93,848,700
Fund Equity	28,101,100	34,351,300
Total Liabilities & Fund Equity	\$ 118,200,000	\$ 128,200,000

Income Statement

Year Ending	August 31, 2023 (Preliminary)	August 31, 2022 (Final)
Income		
Membership Fees	\$ 600	\$ 750
Interest Income	2,550,000	2,585,000
Assessment Income	12,000,000	23,100,000
Miscellaneous Income	641,700	1,861,000
Total Income	\$ 15,192,300	\$ 27,546,750
Expenses (Net)		
Refund to Member Insurers	\$ 9,000,000	\$ 2,755,000
Operating Expenses	4,452,000	3,946,000
Claims Paid (Net)	5,189,000	5,501,000
Claims Expenses	438,000	325,000
Premium Refunds	5,311,000	8,069,000
Total Expenses	\$ 24,390,000	\$ 20,596,000
Net Income/(Loss)	\$ (9,197,700)	\$ 6,950,750

2023 Claims Paid

Insolvent Company	WC			All Other			Total
	Indemnity Paid	Expense Paid	Total Paid	Loss Paid	Expense Paid	Total Paid	
Atlantic Mutual Insurance Co	102,686	8,367	111,053				111,053
Bedivere Insurance Co	68,962	8,268	77,230				77,230
CAGC Insurance Co	112,233	6,543	118,776				118,776
Casualty Reciprocal Exchange	8,834	115	8,949				8,949
Centennial Insurance Co	31,666	1,305	32,972				32,972
Credit General Insurance Co	241,770	28,229	269,999				269,999
Employers Casualty Co	12,896	400	13,296				13,296
Freestone Insurance Co	70,065	37,387	107,452				107,452
Fremont Indemnity Co	92,284	84,589	176,872				176,872
Guarantee Insurance Co	107,960	78,817	186,777				186,777
Home Insurance Co	174,456	7,152	181,609				181,609
Legion Insurance Co	128,701	3,776	132,477				132,477
Lighthouse Property Insurance Corp				1,511,044	86,691	1,597,735	1,597,735
Lumbermans Mutual Group	1,962,475	25,343	1,987,817				1,987,817
Lumbermens UW Alliance	30,408		30,408				30,408
Northwestern National Insurance Co	4,800	1,452	6,252				6,252
Park Ave P&C Insurance Co	-	1,008	1,008				1,008
Reliance Insurance Co	656,021	13,327	669,348				669,348
South Carolina Insurance Co		323	323				323
United Property & Casualty Insurance Co				5,887,880	76,617	5,964,498	5,964,498
Villanova Insurance Co	5,901	167	6,068				6,068
888 WC Mutual Trust	62,164	6,456	68,620				68,620
999 WC Stock Trust	39,410	2,813	42,223				42,223
Gross Total	3,913,694	315,837	4,229,530	7,398,924	163,308	7,562,232	11,791,763
					Recoveries		-823,667
					Net Claims Expenditure		10,968,096

2023 Claims Reserved

Insolvent Company	WC				All Other				Total Reserve	Total Pending
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Loss Reserve	Expense Reserve	Total Reserve	Files Pending		
Atlantic Mutual Ins Co	2,983,217	96,585	3,079,802	4					3,079,802	4
Bedivere Ins Co	2,140,755	109,523	2,250,279	9	26,024	80,000	106,024	39	2,356,303	48
CAGC Ins Co	3,374,636	269,988	3,644,624	9					3,644,624	9
Casualty Reciprocal Exchange	746,705	25,419	772,124	2					772,124	2
Centennial Ins Co	628,436	38,317	666,753	2					666,753	2
Credit General Ins Co	4,147,519	200,499	4,348,018	5					4,348,018	5
Employers Casualty Co	93,987	10,925	104,912	1					104,912	1
Freestone Ins Co	1,691,634	127,776	1,819,410	4					1,819,410	4
Fremont Indemnity Co	2,059,410	119,312	2,178,722	2					2,178,722	2
Guarantee Ins Co	3,506,503	253,344	3,759,847	11					3,759,847	11
Home Ins Co	5,244,543	205,741	5,450,285	12					5,450,285	12
Legion Ins Co	3,788,437	318,038	4,106,474	10					4,106,474	10
Lighthouse Property Ins Corp					881,878	131,348	1,013,226	50	1,013,226	50
Lumbermans Mutual Group	21,713,000	754,709	22,467,709	26					22,467,709	26
Lumbermens UW Alliance	1,038,450	7,379	1,045,829	2					1,045,829	2
Park Ave P&C Ins Co	0	97,596	97,596	1					97,596	1
Reliance Ins Co	21,016,747	1,352,068	22,368,815	41					22,368,815	41
Shelby Ins Co	4		4	4					4	4
South Carolina Ins Co	13,405	6,639	20,044	1					20,044	1
United Property & Casualty Co					3,781,142	932,163	4,713,305	345	4,713,305	345
Villanova Ins Co	145,973	34,001	179,974	2					179,974	2
888 WC Mutual Trust	2,402,073	306,836	2,708,910	14					2,708,910	14
999 WC Stock Trust	1,926,908	63,234	1,990,142	3					1,990,142	3
Gross Total	78,662,341	4,397,930	83,060,272	165	4,689,044	1,143,511	5,832,555	434	88,892,827	599



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