



NCIGA

NORTH CAROLINA INSURANCE GUARANTY ASSOCIATION

2015 ANNUAL REPORT

INSURANCE GUARANTY ASSOCIATION

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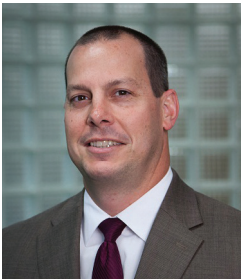
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MESSAGE FROM THE CHAIRMAN



Allen Houck
CHAIRMAN

The Guaranty Association did not activate for any new insolvencies in 2015, but the year was far from quiet.

- Claims and claims expenses paid during the report year were a net \$11.1 million. Also, 170 new claims were reported, and 144 files were closed.
- The Association refunded \$1.7 million to member companies. There were no assessments issued during the report year.

In an interesting development, the liquidator for Reciprocal of America asked for the return of eight claims from the Association to its oversight, reducing our member companies' exposure by \$1.2 million.

In regards to the liquidation of Freestone, our Claims team identified unusual instances of possible overlapping or duplicate coverage. We are pursuing recovery from the solvent parties that we believe are legally responsible for the claims and as a result, are involved in litigation on this matter. Claims management led by Donna Kallianos has done an excellent job in this matter.

Association management has assumed a leadership role in a joint project of several state guaranty associations to purchase and implement a core claims and financial system. A vendor has been selected for this project, and development is well under way. Paula Stana and Tammy Choboy are leading the efforts for the Association.

In a very disappointing and puzzling decision, a Wake County Appeals Court overturned a ruling that had been made in the Association's favor. This case involved determining the responsible party for self-insured claims that occurred prior to the self-insurer's conversion to a mutual company, at which time it became an Association member. Without going into further details of what was a somewhat complicated matter, we believe that the ruling by the Appeals Court was made simply in an effort to find a source of funds to pay these claims (i.e., our member companies), in spite of facts that should have supported a different conclusion. We believe that this ruling sets a troubling precedent and is contrary to sound public policy. We attempted to appeal the ruling to the state Supreme Court, but this effort was not successful. As such, while we believe the ruling was in error, the courts have spoken, and we have assumed responsibility for all of the questioned claims.

Staff remains heavily engaged at the national level of the guaranty fund system. This involvement protects the interests of our own Association as decisions made nationally impact what ultimately transpires in North Carolina. Our Chief Operating Officer, Mike Newton, serves as chair of a member of several different committees of the National Conference of Insurance Guaranty Funds.

Because of the above matters, expense management by the Association is more critical than ever. Management has a proven history of being excellent stewards of the funds contributed by the members of the Association. Additionally, the Association again received a clean audit report, and management received high praise from the audit firm regarding their commitment to keeping accurate books and records and maintaining a strong system of internal controls. Both the Board and management understand their roles as fiduciaries to the citizens of North Carolina and to the member companies of the Association. We remain committed to fulfilling our statutory requirements as effectively and efficiently as possible.

Sincerely,
Allen Houck

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 Insurance Company	Fernando Neil
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Company	Andrew Larson
Nationwide Mutual Insurance Company	Jeanie Seidelmann
NC Farm Bureau Mutual Insurance Company	Allen Houck *
State Farm Mutual Auto Insurance Company	David Stoller **
Travelers Indemnity Company	Kathy Muedder

Non-voting Member	
Property & Casualty Agent	Delaine Bradsher

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 Insurance Company	Allen Houck *
Liberty Mutual Insurance Company	Andrew Larson
Nationwide Mutual Insurance Company	Jeanie Seidelmann

* Chairman
** Vice-chair



MANAGING SECRETARY'S REPORT



Ray Evans
MANAGING SECRETARY, IGA

Several months ago, I attended a meeting with mostly non-insurance folks, and as we were introducing ourselves prior to the start, and in response to my usual, “the Guaranty Association pays claims for insolvent insurance companies” description of our responsibilities, one attendee asked for more detail. This has gotten me to think about how to better describe what we do and how we are executing our responsibilities.

Briefly, the enabling statute (NCGS 58-48) defines our purpose as payment of covered claims for an insolvent insurer, avoiding excessive delay in payment, avoiding financial loss to claimants because of an insurer insolvency, assisting in the detection and prevention of insurer insolvencies and assessing costs among insurers. In reflection, my short answer sure doesn't cover the waterfront and seriously understates our activity. So, as a result, here is a little more detail about what we are doing.

The act of paying “covered” claims requires a number of sophisticated processes. Most importantly, we need an operating system that consumes the insolvent insurer's electronic data, allowing us to perform the adjusting process and then the ability to report to the liquidator's office utilizing a uniform data standard (UDS) format as required by the NAIC. In short, collecting actionable data, evaluating data, litigating some claims, paying claims and compiling Liquidator useful information effectively are all included in paying claims. Mike Newton is currently

spearheading an effort, scheduled for introduction next year, to upgrade the current system to take advantage of more advanced technology.

Payment suggests there is money to pay. To make certain there is, the NCIGA has for the past 12 years been able to “reserve” funds for future payments for current insolvencies. While not reserves as an insurer would report, as the ultimate expected total payment, there are funds on hand for each insolvency to continue paying claims for a significant number of years. This enables the NCIGA to use the assessments available to it to be used for future insolvencies. As you will see a little latter in David Sink's report, the money on hand is substantial, some \$85 million, requiring another sophisticated system to monitor, control and invest these reserves.

Avoiding excessive delay, to us, means having trained associates, a management staff and needed resources—if you will, the “fire house”—available all the time to tackle the next insolvency, most times with little advance notice.

The final piece is from where does the money come? With authority in the statutes and the consent of the Board of Directors, member insurers are assessed for insolvencies. In addition, many times another source of money to be used is special deposits with the Department of Insurance. And finally, there are recoveries from money marshaled and distributed by the Liquidator. Over the past few years, insurer

members of the NCIGA pay about 40% of the cost of an insolvency, with the remaining 60% coming from collection efforts of the NCIGA. There is more detail on this later, but the collection process requires an elaborate effort of collecting data, reporting data that is actionable by a Liquidator, usually some litigation and careful scrutiny of all claims. This year we have made some changes to our accounting process, and more detailed electronic data crunching is in the works, which will make this process easier.

And, in our spare time, the NCIGA staff is working with enterprise risk management, particularly succession planning and cyber-attacks; complying with government regulations regarding future Medicare payments; being a leader in the broader Guaranty Funds community and protecting personal information, among other important issues.

When I look back, we have had a very good year of being effective in executing our responsibilities and planning for the future, and there are two final thoughts: Short answers are not the whole story and all of what happened in the past year is only made possible by a great staff of competent, experienced and enthusiastic associates; counsel and advice from the Board and external expert help, especially from legal counsel.



REPORT OF NCIGA COUNSEL

On August 19, 2014, the Association activated in connection with the insolvency of Freestone Insurance Company, f/k/a Dallas National Insurance Company (“Freestone”), a Delaware insurer, and the Association continued its involvement with the insolvency of CAGC Insurance Company, a North Carolina domestic insurer (“CAGC”). The outstanding claims against these insolvent insurers are predominately workers’ compensation claims, and the Association is actively administering the claims.

In connection with Freestone, the Association’s investigation of the workers’ compensation claims against Freestone following its insolvency revealed that in addition to coverage under the Freestone policies, there also was coverage for some of the claims under policies issued by Companion Property and Casualty Insurance Company, a South Carolina insurer (“Companion”). As a result, the Association tendered a group of claims to Companion for further defense and administration. Companion denied the Association’s tender of the claims, and thereafter Companion commenced a declaratory judgment action against the Association in the Superior Court for Wake County. That declaratory judgment action is in the early stages of discovery, and the Association does not anticipate any resolution of that action until sometime in 2016.

As previously reported in connection with the CAGC insolvency, the Association had been actively involved in proceedings pending in the Superior Court for Wake County concerning the Association’s obligation for certain claims against CAGC which arose prior to July 1, 2008, and which the Association argued were claims that arose as self-insured claims against a group self-insurer, CompTrustAGC of North Carolina, prior to a merger between that group self-insurer and CAGC. After the Association prevailed at the trial court level, the North Carolina Court of

Appeals reversed the trial court’s decision. After an effort to seek further review was denied by the North Carolina Supreme Court, the Association took over the handling and administration of these claims against CAGC. As a result of the rulings by the appellate courts, the Association will be reimbursing the North Carolina Self Insurance Security Association for claim payments and claims-related expenses it made following the CAGC insolvency and while the case was on appeal. Finally, the Association is actively working with the CAGC liquidator to obtain direct to certain excess insurance coverage for these pre-merger claims against CAGC which the Association is now obligated to pay.

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. In Illinois, the receiver of Lumbermens Mutual Casualty Company (“Lumbermens”) took the position that the proceeds of special deposits had to be accounted for as a distribution to the Association so as to offset the Association’s claim for administrative expenses. When the Association advised the receiver that North Carolina law on special deposits was contrary to the receiver’s position, the receiver for Lumbermens relented, and the Association’s claim for administrative expenses of approximately \$340,000 was approved in full. As the receivers of various 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.



Christopher J. Blake
PARTNER,
NELSON MULLINS RILEY
& SCARBOROUGH LLP



Joseph W. Eason
PARTNER,
NELSON MULLINS RILEY
& SCARBOROUGH LLP



CHIEF OPERATING OFFICER'S REPORT



The adage is “with experience should come wisdom.” I have been in some form of management with the Association since April 1, 1996—assistant claims manager, claims manager, director and now chief operating officer—and accordingly have been exposed to a lot of the intricacies of the insurance guaranty association safety network. While not fool hardy to ever make claim that “I have seen it all,” a large portion of the management and operational nature of the job has become comfortably familiar. If nothing else, I know whom to call when I have a question and have been around and engaged on a national level long enough that oftentimes the call for assistance is directed my way.

That said, the past year has presented the Association with two situations: those arising from CAGC Insurance insolvency and Freestone Insurance Insolvency that simply have not been previously encountered. In the CAGC insolvency, a self-insurer with existing claims merged with a Company, which it had established, and, upon insolvency of the new Company, the pre-existing claims were presented to the Association. While the Association won the issue at the trial level, the Court of Appeals reversed the decision, and then the Supreme Court refused our petition

for discretionary review. So we now are charged with paying pre-existing self-insured claims, a position we would, if possible, litigate again today.

In the Freestone Insurance Insolvency, our investigation to confirm coverage for the workers’ compensation claims revealed that there was dual coverage provided by Companion Property and Casualty Company, a solvent carrier. The Guaranty Association Act states that the insured (under an insolvent policy) must first exhaust any coverage provided by a solvent carrier prior to presenting the claims to the Association. We are now in litigation with Companion with dozens of claims representing millions of dollars in liability being the source of contention.

Even though we did not have a new insolvency during the report period, the year itself has been the busiest in five years as shown by the graph below. Our net payments of \$11.1 million, after recovery of \$956 thousand in net-worth and large deductible recoveries, show we remain busy carrying out our core responsibilities. Our open claim reserve total of \$81.8 million is the highest recorded at the end of any fiscal year. Indeed, a review of 2005, a decade prior and in the midst of the Reliance and Legion insolvencies, shows that even with claims and claims expense payments in excess of \$25 million, the open reserves totalled approximately \$60 million.

We continue to make sure that we are in compliance with the MSP/CMS federally mandated reporting requirements. Work continues on our collaborative effort of developing a new claims management and financial tracking software system as well as accessing our exposures and protections needed against hacking of our data system.

Busy times, but we are up to the challenge of handling claims, unexpected developments and preparing for future insolvencies. It’s what we do.

Fiscal Year Comparisons			
Year	Claim Count	Gross Paid	Reserve
2011	315	\$9,003,766	\$68,178,789
2012	273	\$8,143,293	\$63,053,431
2013	398	\$6,480,222	\$78,783,425
2014	372	\$11,887,604	\$74,890,664
2015	399	\$12,096,450	\$81,837,596



INSURANCE GUARANTY ASSOCIATION

BALANCE SHEET

Year Ending	August 31, 2015 (Preliminary)	August 31, 2014
Assets		
Cash (Checking Account)	\$ 1,165,000	\$ 791,024
Investments	74,650,000	72,978,701
Assessments Receivable	-	9,500,010
Other Assets	-	-
Total Assets	\$ 75,815,000	\$ 83,269,735
Liabilities & Fund Equity		
Accounts Payable	\$ -	\$ -
Claims Liability	77,900,000	71,502,960
Unearned Premium Liability	-	-
Claims Expense Liability	3,900,000	3,387,704
Other Liabilities	(1,700)	(1,689)
Total Liabilities	\$ 81,798,300	\$ 74,888,975
Fund Equity	(5,983,300)	8,380,760
Total Liabilities & Fund Equity	\$ 75,815,000	\$ 83,269,735

INCOME STATEMENT

Year Ending	August 31, 2015 (Preliminary)	August 31, 2014
Income		
Membership Fees	\$ 500	\$ 1,000
Interest Income	1,394,700	1,400,032
Assessments Income	-	18,099,967
Miscellaneous Income	7,325,000	10,637,900
Total Income	\$ 8,720,200	\$ 30,138,899
Expenses		
Refund to Commissioner/Liquidators	\$ 395,500	\$ 142,601
Refund to Member Insurers	1,700,000	5,949,994
Operating Expenses	2,804,000	2,377,332
Claims Paid (Net)	9,620,000	10,096,593
Claims Expenses	1,525,000	1,216,702
Premium Refunds	-	-
Total Expenses	\$ 16,044,500	\$ 19,783,222
Net Income (Loss)	\$ (7,324,300)	\$ 10,355,677

CLAIMS PAID DETAIL

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
Atlantic Mutual Ins. Co.	\$832,980	\$35,114	\$868,094			
CAGC Insurance Co.	\$406,318	\$70,617	\$476,935			
Casualty Reciprocal	\$57,009	\$7,975	\$64,984			
Centennial Ins. Co.	\$47,001	\$12,230	\$59,231			
Credit General	\$276,479	\$28,376	\$304,855			
Employers Casualty	\$41,133	\$3,000	\$44,133			
Fremont Indemnity Co.	\$106,346	\$6,437	\$112,783			
Freestone Insurance Co.	\$2,801,676	\$662,646	\$3,464,322			
Frontier Ins. Co.	\$2,234		\$2,234			
Gramercy Ins. Co.					\$960	\$960
Home Insurance Co.	\$146,846	\$39,416	\$186,262			
Imperial Casualty	-\$316,455	-\$29,866	-\$346,320			
INSCORP Ins.	\$203,354	\$7,025	\$210,379			
Legion Insurance Co.	\$464,839	\$74,479	\$539,318			
Lumberman Mut. Group	\$1,496,469	\$90,216	\$1,586,686			
Park Ave P&C	-\$333,729	\$8,644	-\$325,085			
PHICO Insurance Co.	\$58,511	\$1,302	\$59,813			
Realm Nat. Ins. Co.		\$10,616	\$10,616			
Reliance Insurance Co.	\$1,505,574	\$140,927	\$1,646,501		-\$63	-\$63
ROA Insurance Co.	\$39,479	\$2,573	\$42,053			
Shelby Insurance Co.	\$18,285	\$1,578	\$19,863			
South Carolina Ins. Co.	\$314,880	\$28,769	\$343,649			
ULLICO Cas. Ins. Co.	\$968,189	\$108,244	\$1,076,433			
Villanova Insurance Co.	\$135	\$516	\$651			
888 WC Mutual Trust	\$386,539	\$88,877	\$475,416			
999 WC Stock Trust	\$87,787	\$4,962	\$92,749			

CLAIMS RESERVED DETAIL

	WC				Auto			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
Atlantic Mutual Ins. Co.	\$3,525,429	\$65,620	\$3,591,049	8				
CAGC Insurance Co.	\$10,786,684	\$339,967	\$11,126,651	24				
Casualty Reciprocal	\$1,769,575	\$46,547	\$1,816,122	6				
Centennial Ins. Co.	\$380,765	\$24,537	\$405,302	3				
Credit General	\$5,636,912	\$188,541	\$5,825,453	4				
Employers Casualty	\$321,740	\$39,432	\$361,172	6				
Fremont Indemnity Co.	\$1,562,801	\$17,033	\$1,579,833	2				
Freestone Ins. Co.	\$4,208,815	\$622,505	\$4,831,321	105				
Frontier Ins. Co.								
Gramercy Ins. Co.					\$60,000	\$9,453	\$69,453	1
Home Insurance Co.	\$2,558,754	\$200,206	\$2,758,960	23				
Imperial Casualty								
INSCORP Ins.								
Legion Insurance Co.	\$6,146,165	\$225,703	\$6,371,869	21				
Lumberman Mut. Group	\$10,888,380	\$354,162	\$11,242,542	51	\$195,711	\$180	\$195,891	3
Park Ave P&C	\$1,920,997	\$14,543	\$1,935,541	1				
PHICO Insurance Co.	\$53,087	\$10,612	\$63,699	1				
Realm Nat. Ins. Co.								
Reliance Insurance Co.	\$19,170,183	\$1,006,655	\$20,176,838	59				
ROA Insurance Co.				0				
Shelby Insurance Co.	\$253,625	\$22,861	\$276,485	2	\$29,000	\$7,275	\$36,275	2
South Carolina Ins.	\$1,810,482	\$45,311	\$1,855,793	6	\$7,500		\$7,500	1
ULLICO Cas. Ins. Co.	\$96,503	\$35,524	\$132,027	4				
Villanova Insurance Co.	\$179,473	\$6,424	\$185,897	2				
888 WC Mutual Trust	\$4,433,757	\$325,122	\$4,758,879	42				
999 WC Stock Trust	\$1,094,591	\$25,804	\$1,120,395	3				
TOTAL								



	All Other			Total
	Indemnity Paid	Expense Paid	Total Paid	Total
Atlantic Mutual Ins. Co.				\$868,094
CAGC Insurance Co.				\$476,935
Casualty Reciprocal				\$64,984
Centennial Ins. Co.				\$59,231
Credit General				\$304,855
Employers Casualty				\$44,133
Fremont Indemnity Co.				\$112,783
Freestone Insurance Co.				\$3,464,322
Frontier Ins. Co.		\$2,114	\$2,114	\$4,347
Gramercy Ins. Co.				\$960
Home Insurance Co.				\$186,262
Imperial Casualty				-\$346,320
INSCORP Ins.				\$210,379
Legion Insurance Co.				\$539,318
Lumberman Mut. Group		\$120,185	\$120,185	\$1,706,871
Park Ave P&C				-\$325,085
PHICO Insurance Co.				\$59,813
Realm Nat. Ins. Co.				\$10,616
Reliance Insurance Co.				\$1,646,438
ROA Insurance Co.				\$42,053
Shelby Insurance Co.				\$19,863
South Carolina Ins. Co.				\$343,649
ULLICO Cas. Ins. Co.				\$1,076,433
Villanova Insurance Co.				\$651
888 WC Mutual Trust				\$475,416
999 WC Stock Trust				\$92,749
				Unearned Premium
				Net Total
				Recoveries
				Gross Total Expenditure
				\$11,139,750
				\$956,700
				\$12,096,450

CLAIMS PAID DETAIL

	All Other				Total	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserve	Total Pending
Atlantic Mutual Ins. Co.	\$60,002	\$86,382	\$146,384	3	\$3,737,433	\$11
CAGC Insurance Co.					\$11,126,651	24
Casualty Reciprocal					\$1,816,122	6
Centennial Ins. Co.					\$405,302	3
Credit General					5,825,453	4
Employers Casualty					\$361,172	6
Fremont Indemnity Co.					\$1,579,833	2
Freestone Ins. Co.					\$4,831,321	105
Frontier Ins. Co.	\$100,000	\$12,811	\$112,811	1	\$112,811	1
Gramercy Ins. Co.					\$69,453	1
Home Insurance Co.					\$2,758,960	23
Imperial Casualty					\$0	0
INSCORP Ins.					\$0	0
Legion Insurance Co.					\$6,371,869	21
Lumberman Mut. Group	\$52,137	\$815	\$52,952	8	\$11,491,385	62
Park Ave P&C					\$1,935,541	1
PHICO Insurance Co.	\$600,000	\$200,000	\$800,000	2	\$863,699	3
Realm Nat. Ins. Co.					\$0	0
Reliance Insurance Co.	\$302	\$200	\$502	5	20,177,340	64
ROA Insurance Co.					\$0	0
Shelby Insurance Co.					\$312,760	4
South Carolina Ins.					\$1,863,293	7
ULLICO Cas. Ins. Co.					\$132,027	4
Villanova Insurance Co.					\$185,897	2
888 WC Mutual Trust					4,758,879	42
999 WC Stock Trust					1,120,395	3
TOTAL					\$81,837,596	399

CLAIMS RESERVED DETAIL



SHARED SERVICES



Shelley Chandler
CHIEF INFORMATION OFFICER

The news is full of stories of major corporations being hacked and data being compromised or held at ransom. Companies are spending more time and resources on security, and we are no exception. In 2015, we focused a great deal of time and energy into ensuring that we are positioned to maintain, protect and keep secure all of the data entrusted to us by the insurance companies of NC.

Keeping hardware and software up to date is critical to ensuring the most secure environment for the data we maintain. In 2014 and 2015, we rebuilt our entire server network to run on the newest operating system, which will ensure that we continue to receive security updates critical to the networks health. Also, we updated our 17 custom software applications to ensure they were compatible with the newer technologies, including the server operating system, database version and Internet Explorer browser. This was an enormous undertaking with an immovable deadline, and we are happy to report that we completed the project more than a month ahead of the deadline.

In addition to technical upgrades, we also revised our security policies and tightened down our security controls. We implemented security education for our associates to ensure they are well educated on how to keep our network and data secure and safe. We also implemented a Security Information and Event Management system to help us more proactively monitor the systems we support.

There were also a number of business-driven upgrades undertaken in 2015.

We continue to support the business team in their efforts to implement a new system that will carry them forward in a more secure, efficient manner. We have loaned out one of our best Project Managers to oversee the design and implementation of this system.

In 2015 we worked with the Accounting/Finance department to move to a new software support vendor and helped facilitate improvements to that system to increase efficiency and security.

2015 has been a year focused on foundational changes that should propel us into a more secure environment where the data for which we are responsible for stays safe and secure. We continue to look into the future to best utilize new technologies that enable efficiencies while focusing on the importance of securing the large volumes of data that are entrusted to us.



Vicki Godbold
CHIEF ADMINISTRATIVE OFFICER

“There will always be a reason why you meet people. Either you need them to change your life or you’re the one that will change theirs.”
—Diem Brown

Our Human Resources is the strategic and comprehensive approach committed to our Organization’s most valued assets—our people. Administrative Services provide a secure and comfortable work environment along with mail services and receptionist services.

Years of Service		
Years	# of Employees	% of Employees
0-9 Years	0	0%
10-19 Years	8	100%
20-29 Years	0	0%
30-39 Years	0	0%
40+ Years	0	0%
Total	8	100%

Our Wellness Program consists of

- WeightWatchers,
- a partnership with WakeMed Hospital,
- a partnership with the Performance Athletic Center,
- 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 focus this year was on our Wellness Initiative and consisted of 12 fitness classes, 8 wellness seminars, 15 Wellness lunch-n-learns and associate desk visits to encourage stretch breaks by Performance Athletic Center staff.

Community Service involvement by our associates this year included The Wounded Warrior Project, the United Way and the NC Food Bank.





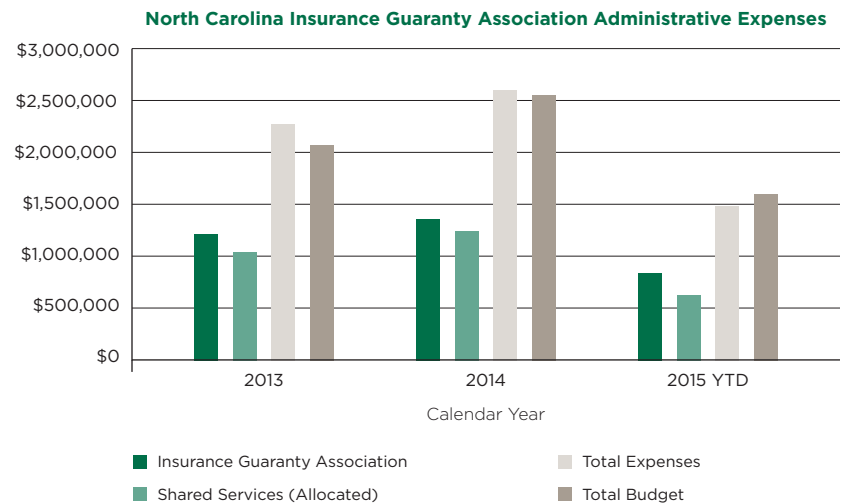
David Sink
CHIEF FINANCIAL OFFICER

The North Carolina Insurance Guaranty Association’s financial position is summarized in the exhibits on page 6 which reflect the comparative balance sheets and income statements for the latest two years ending August 31. While no new insolvencies were activated during the report year, the financial activity has remained constant and demanding due to the complexity of some of the more recent insolvencies. The Association’s assets decreased from \$83.3 million a year ago to \$75.8 million as of August 31, 2015, and this decrease is mostly attributable to refunds issued to member companies for several older insolvencies and net claim and expense payments which totaled in excess of \$11 million for a second consecutive year. There were no assessments issued during this report year, but it is likely some will be rendered to our member companies over the coming months.

Net claim and claim expense payments approximated \$11.2 million over the past 12 months—down slightly over the prior report period—and reflect significant recoveries received from multiple insolvencies. Claim and claim expense reserves are estimated to be \$81.8 million at the time of this report, but Staff continues to make upward revisions as the files are constantly reviewed and evaluated. During the report period, significant distributions were received from the liquidators of Credit General, Legion, Reciprocal of America, Casualty Reciprocal Exchange and Park Avenue, which are included on the income statement as miscellaneous income. The Association’s net investment income approximated \$1.4 million again this year and represents a yield of about 1.7% on the portfolio. All investment transactions were in compliance with the Cash Management and Investment Guidelines at the time of purchase.

The increase in administrative expenses over the past few years has continued, recognizing that they are up about 18% from the previous year primarily due to the complexity of recent insolvencies as previously noted and the activity related to the implementation of a new claims system. Our projections at this time are that the Association’s administrative expenses will be within the approved budget for 2015. The total 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 with the Rate Bureau and Reinsurance Facility. The table and chart that follow reflect a summary of the direct and allocated expenses for the prior two years and the first half of 2015.

Administrative Expenses	2013	2014	Thru June 2015
Insurance Guaranty Association	\$ 1,205,191	\$ 1,339,860	\$ 834,742
Shared Services (Allocated)	1,034,810	1,223,677	622,579
Total Expenses	\$ 2,240,001	\$ 2,563,537	\$ 1,457,321
Total Budget	\$ 2,045,082	\$ 2,510,610	\$ 1,569,471



Staff remains cognizant of its responsibilities and recognizes that the costs of fulfilling our duties and obligations are mostly borne by the member companies of this Association. Therefore, it is our constant aim to be fiscally responsible in our efforts and operations, and we are continually grateful for the support of the Board of Directors, Committees, Counsel and member companies.





NORTH CAROLINA **INSURANCE GUARANTY ASSOCIATION**

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