

NORTH CAROLINA

INSURANCE GUARANTY ASSOCIATION

2012 Annual Report



INSURANCE GUARANTY ASSOCIATION

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General Organizational Information

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Shelley Chandler	Director, Information Services
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David Sink	Director, Finance
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MESSAGE FROM THE CHAIRMAN

Over the last several years, it has been my privilege to serve on the Board of Directors of the North Carolina Insurance Guaranty Association. The Association, created by statute, has served the interests of North Carolinians for over 40 years. For the last 20 years, Mr. Tom Huels served as Chairman of the Board of Directors and did a tremendous job of providing counsel and guidance to Association Staff as they, in many instances, worked through uncharted territory. And though we heartily congratulate Mr. Huels' on his well-deserved retirement, there will be a void at the Association.

In assuming the chairmanship in October 2011 and presiding during fiscal year 2012, I have taken great comfort in knowing that we have the best leaders and Staff of any guaranty association across the country.

Of note are the following accomplishments in the current year:

- The Association refunded \$16.7 million to member companies. Assessments of \$1.6 million were made.
- The Association always does an outstanding job, as caretaker of the assets of others, of managing its expenses. The Association came in under budget for 2011, and reduced its 2012 operating budget by six percent from 2011's budget.
- Staff continues to remain heavily engaged at the national level of the guaranty fund system. This involvement helps protect the interests of our own Association as decisions made nationally have a direct impact on what ultimately transpires in North Carolina.
- The Board, Staff and Counsel are actively engaged in a domestic company in rehabilitation to ensure that policyholders are provided the safety network promised by the Guaranty Act.

The economic turmoil of the last five years all but ensures that the Association stands to see increased activity in the next few years. With a superior management team in place, one that is committed to acting with honesty and integrity, and a clearly defined directive as established by the North Carolina legislature, the Association is well prepared to handle all of what lies ahead.

Allen Houck

Sincerely,
Allen Houck

BOARD OF DIRECTORS

The Plan of Operation provides that the Board of Directors consists of eight directors, comprised of 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	Nancy Lemke
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Company	John Walsh
Nationwide Mutual Insurance Company	Jim Gadberry
NC Farm Bureau Mutual Insurance Company	Allen Houck *
State Farm Mutual Auto Insurance Company	David Stoller **
Travelers Indemnity Company	Kristina Barronton

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	John Walsh

* Chairman

** Secretary-Treasurer



MANAGING SECRETARY'S REPORT



Ray Evans
MANAGING SECRETARY, IGA

As this year's annual report is being prepared, the Organizations have just completed our move to a new location. While in the giant scheme of things this is one of thousands of corporate moves each year, it has been a very big event for us and in many ways represents who we are.

The move itself went smoothly, as it should have since it has been several years from inception to execution. However, the length of time was not the important component of success; it was instead the planning, investigation and collaboration that went on during this period and tackling and overcoming the unexpected issues as they arose that were the real reasons for success.

The result is a bright and cheerful environment, somewhat smaller than our previous office but, we believe, a much more efficient use of the space we have.

So how, you might ask, is this representative of the Organizations? It is because our strategic goals are to be educated, plan, adapt to changing conditions, involve everyone, keep our eye on the end expectations and be prudent in our choices. Those are the very things that contributed to a successful move.

Another aspect of the move is that a number of our associates with whom many of you do not interact often did much of the heavy lifting. Vicki Godbold, our HR and Administrative Services Director, was essentially the project manager. Chuck Eckstein did the scheduling and was in charge of the physical move. Shelley Chandler, the IS Director, was responsible for the overall electronic hardware and software move as well as the co-location operations. And Frank Lonnett was the "hands-on" hardware, wiring and electronic installation detail person. They all, among others, worked long hours.



This year has seen a number of smaller insolvencies, all workers compensation claims, that have kept our inventory of active claims at the same or a somewhat higher level than last year. We also expect that several carriers now in rehabilitation will be liquidated later this year or early in 2013, suggesting a steady if not increasing workload for some time. To continue preparations in order to be ready for a large insolvency, Mike Newton is chair of an industry group that is investigating alternate operating systems to enable the NCIGA to be more effective and make it easier to communicate and to transfer data among other Guaranty Funds. Mike also continues to serve as chair of the important industry-wide coordinating committee for insolvencies, a very significant component of the carrier insolvency system.

As you will see from the following detail in this report, the Guaranty Association has performed well this past year and has accomplished most of the goals established for it at the beginning of the year. While we miss the long-time chair Tom Huels due to his retirement, and while his is a tough act to follow, Allen Houck has done a great job as the new chair.

A handwritten signature in black ink that reads "Ray Evans".

FINANCE DIRECTOR'S REPORT



David Sink
DIRECTOR, FINANCE

Stable is the word that aptly describes the financial position of the North Carolina Insurance Guaranty Association as we conclude the 12 months ending August 31, 2012. While the assets of the Association decreased approximately \$16 million during the report period, most of the change is attributable to the refunds issued to our member insurers in December 2011 relating to several accounts of the more mature insolvencies. Significant distributions from various insolvency liquidators during the past year contributed to the Association's ability to refund \$16.7 million — while only needing to assess approximately \$1.6 million to cover the obligations of more recent insolvencies.

Investment income totaled just over \$1.8 million, which represents a yield of about 2.2 percent. Despite the low interest rate environment that continues, the Association's portfolio remains solid and appropriately positioned to meet our forecasted obligations. The Audit Committee of the Board receives quarterly reports of the Association's investment activity, and all transactions are in compliance with the Cash Management and Investment Guidelines at the time of purchase.

Net claim and claim expense payments approximated \$7.7 million, which represents a decrease of \$1.3 million — or just over 14 percent — from the prior year. The administrative expenses increased just under 2 percent from the previous year while the liabilities related to the Association's claim and expense obligations decreased \$5.1 million or about 7.5 percent over the last 12 months.

We continue to believe the financial position of the Association remains strong and sufficient to meet its obligations related to the current insolvencies. We also continue to appreciate the guidance and support from our Board of Directors, committees and member companies as we fulfill our statutory responsibilities.

David Sink

David E. Sink
Director, Finance

REPORT OF NCIGA COUNSEL

In the past year, the Association has focused on monitoring legal issues arising from insolvent insurer estates. In the domiciliary receivership proceedings in Pennsylvania for Reliance Insurance Company and Legion Insurance Company, the Association continues to work with the domiciliary receivers on expense and reinsurance claim audits, large deductible recoveries, and early access payments. In Virginia, the receiver of Reciprocal of America continues to consider a transaction that will transfer any of the remaining liabilities of that insolvent insurer to an assuming insurer that will have the effect of terminating the Association's liabilities for any remaining claims. The Association is evaluating whether this proposed transaction can be accomplished as intended by the receiver for Reciprocal of America. As the receivers make claim priority determinations for different categories of claims, the Association will defend its interests, as necessary, to ensure that the Association receives the maximum recovery on its claims against these insolvent insurer estates.

In North Carolina, the Association has resolved outstanding issues related to two North Carolina domestic insolvencies. In the case of State Capital Insurance Company, the Association worked with representatives of the North Carolina Department of Insurance on the closing of the estate, which resulted in the payment of 100 percent of the outstanding claims of all state insurance guaranty associations. In the case of Commercial Casualty Insurance Company, the Association was instrumental in obtaining an early access distribution from the Liquidator to all state insurance guaranty associations.

While the Association has managed to avoid litigation as a named party in the past year, it remains proactive in monitoring events and developments that may impact it.



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



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



R. Mike Newton
DIRECTOR, IGA

DIRECTOR'S REPORT

In considering our current financial footing on a national and global scale, one could, without much cynicism, envision a house of cards perilously positioned to fall. After all, prior to just a few years ago, who had heard the term “systemic failure” or of a company being too big to fail? This year’s NCIGA Annual Report cover might be similarly fitting as it shows dominoes standing on end in a long line so that when one tile topples, it topples another, which topples another, and so forth, with the end result of all tiles falling. The phenomenon of small events causing similar events leading to eventual catastrophe is called the domino effect and metaphorically speaking can show causal linkages within systems such as politics or global finance.

What I like about the cover photo is the intervening hand stopping the tiles from continuing the domino effect. Wouldn't it be great if something could intervene and prevent a systemic failure of the financial sector when a large or series of medium-sized companies fail? For the property and casualty insurance industry, that hand could be represented by the national safety network of the insurance guaranty fund system. This national safety network is composed of state-based guaranty funds, and the North Carolina Insurance Guaranty Association (NCIGA) is an integral part of that safety network.

The 1971 General Assembly of North Carolina enacted the Insurance Guaranty Association Act on June 25, 1971, and the Act was codified as Article 17B of the Insurance Laws of North Carolina, G.S. 58-155.41 through G.S. 58-155.59. On November 10, 1972, Insurance Commissioner Edwin S. Lanier entered an order approving the Plan of Operation of the NCIGA, and member companies were ordered to comply with the Plan of Operation.

So how important was that decision 41 years ago to create the NCIGA, whose purpose is providing a mechanism for the payment of covered claims under certain policies, avoiding both excessive delay in payment and financial loss to claimants or policyholders due to the insolvency of an insurer, assisting in the detection and prevention of insurer insolvencies and providing an association to assess the cost of such protection among insurers? Let's look at some statistics created by that “intervening hand.”

In its 40 years of operation, the NCIGA has responded to over 65 different insolvencies involving more than 30,000 claimants. Nearly \$250 million has been paid in indemnity payments, claims expenses and return of unearned premiums in the course of discharging our statutorily created duties. Recoveries by subrogation, net worth provisions and large



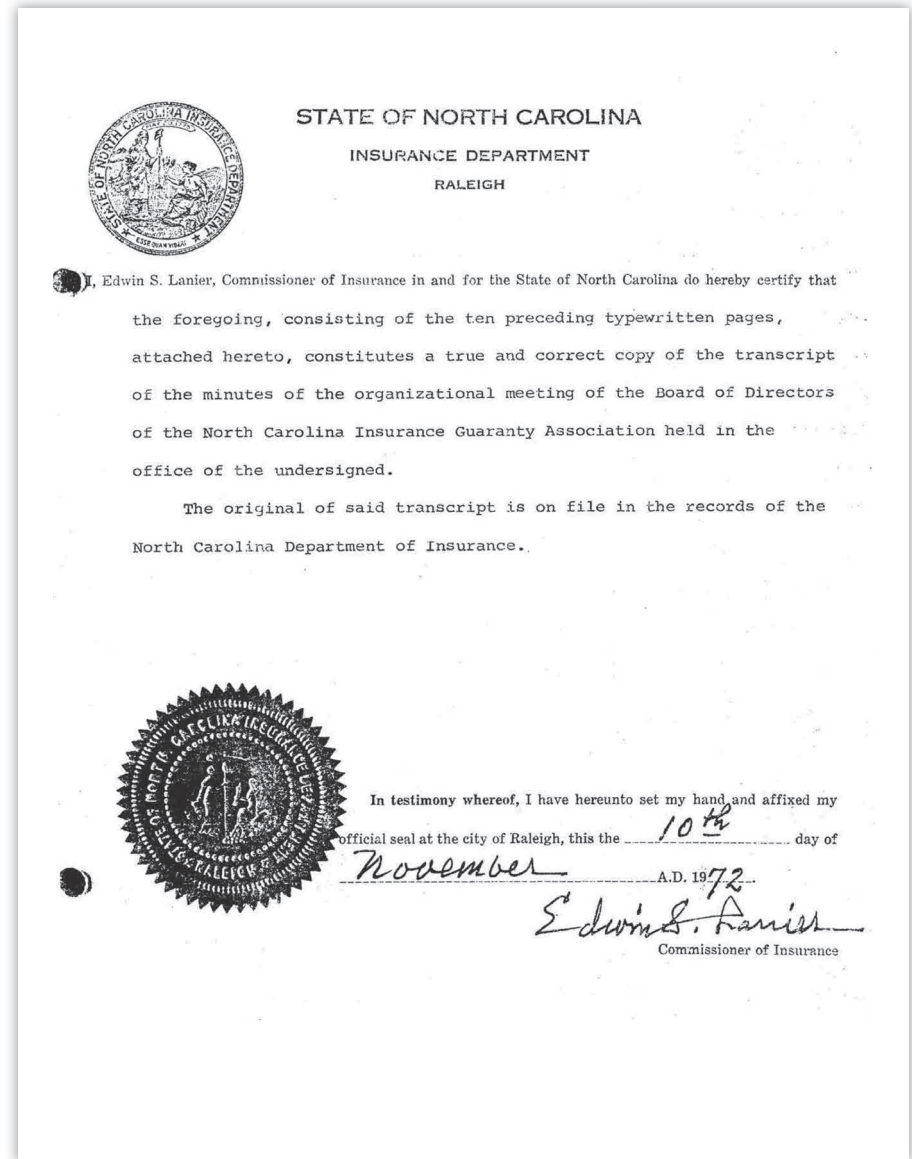
deductible reimbursements have netted those payouts to \$233 million. Efficiency in operations is reflected by operating costs amounting to \$32.2 million dollars, resulting in an operating percentage of 7.2 percent, well within industry averages for solvent companies.

The question arises as to where the NCIGA got the \$265.2 million to fund its operational and claims handling costs. The funds come from special deposits held by the NC Department of Insurance, recoveries from the insolvent estates (the guaranty funds are creditors against the estates), assessments against the solvent member companies of the NCIGA and interest earned on those funds. Although member companies and the insurance-buying public have certainly been affected by the assessments of \$196.1 million against the member companies required to provide this safety network, it's critical to note that over \$120.2 million of those assessments have been refunded to member companies. This means that a net of \$76 million of assessments against member companies has financed \$ 265.2 million in total costs as well as provided the current funds in hand of \$77.7 million needed to handle claims open as of August 31, 2012.

I hope this report has provided you with an idea of the scale of the NCIGA's operation during the past 40 years. We continue to refine our processes and capabilities as the Managing Secretary's report reflects. A review of the paid and reserved claims data provided in this annual report and the report from our Director of Finance will give you a review of activities during this report year.

R. Mike Newton

R. Mike Newton
Director, IGA



Adoption of Plan of Operation

CLAIMS PAID DETAIL

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
Casualty Reciprocal	\$84,998	\$32,961	\$117,961			
Credit General	\$289,368	\$37,523	\$326,892			
Employers Casualty	\$49,660	\$17,887	\$65,548			
Fremont Indemnity Co	\$93,112	\$9,644	\$102,757			
Home Insurance	\$165,791	\$36,848	\$202,639			
Imperial Casualty	\$562,445	\$50,556	\$613,001			
INSCORP Insurance	\$145,742	\$12,545	\$158,287			
Park Avenue	\$83,239	\$19,773	\$103,012			
Legion Insurance Co	\$1,002,094	\$54,028	\$1,056,122			
PHICO Insurance	\$5,790	\$0	\$5,790			
Reliance Insurance Co	\$1,549,059	\$140,520	\$1,689,578	\$5,358	\$0	\$5,358
ROA Insurance Co	\$745,392	\$17,658	\$763,050			
Shelby Insurance Co	\$66,823	\$9,127	\$75,950			
South Carolina Ins Co	\$450,185	\$57,964	\$508,149			
Pegasus Insurance Co	\$899	\$19	\$918			
Atlantic Mutual Ins Co	\$350,361	\$45,834	\$396,195			
Centennial Ins Co	\$96,727	\$38,054	\$134,781			
Villanova Insurance Co	\$123,507	\$16,993	\$140,500			
888 Mutual Trust	\$425,912	\$61,415	\$497,328			
999 Stock Trust	\$288,997	\$17,929	\$306,925			
Total	\$6,580,102	\$677,278	\$7,257,380	\$5,358	\$0	\$5,358

CLAIMS RESERVED DETAIL

	WC				Auto			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
Casualty Reciprocal	\$1,478,292	\$34,559	\$1,512,852	10				
Credit General	\$2,647,031	\$69,544	\$2,716,575	4				
Employers Casualty	\$447,778	\$33,473	\$481,251	3				
Fremont Indemnity Co	\$1,138,142	\$25,564	\$1,163,706	2				
Home Insurance	\$2,934,387	\$320,480	\$3,254,867	42				
Imperial Casualty	\$217,226	\$3,693	\$220,919	1				
INSCORP Insurance	\$887,030	\$52,424	\$939,455	3				
Park Avenue	\$1,958,924	\$33,355	\$1,992,279	1				
Legion Insurance Co	\$6,692,156	\$277,198	\$6,969,354	28				
PHICO Insurance	\$134,106	\$2,000	\$136,106	1				
Reliance Insurance Co	\$19,602,832	\$1,103,865	\$20,706,697	63	\$77,999	\$7,061	\$85,059	1
ROA Insurance Co	\$2,421,288	\$116,187	\$2,537,475	14				
Shelby Insurance Co	\$684,672	\$36,096	\$720,768	4	\$29,000	\$7,275	\$36,275	2
South Carolina Ins Co	\$4,358,771	\$45,895	\$4,404,666	7	\$48,918	\$14,222	\$63,140	2
Pegasus Insurance Co	\$0	\$0	\$0	0				
Atlantic Mutual Ins Co	\$5,592,035	\$173,558	\$5,765,592	16				
Centennial Ins Co	\$825,981	\$26,471	\$852,452	4				
Villanova Insurance Co	\$131,940	\$6,473	\$138,413	2				
888 Mutual Trust	\$5,903,427	\$266,278	\$6,169,705	47				
999 Stock Trust	1,216,141.00	40,230.33	1,256,371.33	3		\$28,557		
Total	\$59,272,158	\$2,667,343	\$61,939,501	255	\$155,917		\$184,474	5

	All Other		Total Paid	Total
	Indemnity Paid	Expense Paid		
Casualty Reciprocal				\$117,959
Credit General				\$326,892
Employers Casualty				\$67,548
Fremont Indemnity Co				\$102,757
Home Insurance				\$202,639
Imperial Casualty				\$613,001
INSCORP Insurance				\$158,287
Park Avenue				\$103,012
Legion Insurance Co				\$1,056,122
PHICO Insurance				\$5,790
Reliance Insurance Co				\$1,694,937
ROA Insurance Co				\$763,050
Shelby Insurance Co				\$75,950
South Carolina Ins Co				\$508,149
Pegasus Insurance Co				\$918
Atlantic Mutual Ins Co	\$0	\$406,348		\$802,543
Centennial Ins Co				\$134,781
Villanova Insurance Co				\$140,500
888 Mutual Trust				\$487,327
999 Stock Trust				\$306,926
Total	\$0	\$406,348		\$7,669,086
			Unearned Premium	\$
			Net Total	\$7,669,086
			Recoveries	474,207
			Gross Total Expenditure	\$8,143,293

CLAIMS PAID DETAIL

	All Other				Total	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserve	Total Pending
Casualty Reciprocal					\$1,512,852	10
Credit General					\$2,716,575	4
Employers Casualty					\$481,251	3
Fremont Indemnity Co					\$1,163,706	2
Home Insurance					\$3,254,867	42
Imperial Casualty					\$220,919	1
INSCORP Insurance					\$939,455	3
Park Avenue					\$1,992,279	1
Legion Insurance Co					\$6,969,354	28
PHICO Insurance	\$600,000	\$200,000	\$800,000	2	\$936,106	3
Reliance Insurance Co	\$502	\$300	\$800	8	\$20,792,556	72
ROA Insurance Co					\$2,537,475	14
Shelby Insurance Co					\$757,043	6
South Carolina Ins Co					\$4,467,806	9
Pegasus Insurance Co						
Atlantic Mutual Ins Co	\$60,002	\$68,652	\$128,654	3	\$5,894,246	19
Centennial Ins Co					\$852,452	4
Villanova Insurance Co					\$138,413	2
888 Mutual Trust					\$6,169,705	47
999 Stock Trust					\$1,256,371	3
Total	\$660,504	\$268,952	\$929,454	13	\$63,053,431	273

CLAIMS RESERVED DETAIL



INSURANCE GUARANTY ASSOCIATION

BALANCE SHEET

Year Ending	August 31, 2012 (Preliminary)	August 31, 2011
Assets		
Cash (Checking Account)	\$ 2,800,000	\$ 11,630,231
Investments	74,904,000	81,489,460
Assessments Receivable	400,000	948,135
Other Assets	-	-
Total Assets	\$ 78,104,000	\$ 94,067,826
Liabilities & Fund Equity		
Accounts Payable	\$ -	\$ -
Claims Liability	60,089,000	64,700,406
Unearned Premium Liability	-	-
Claims Expense Liability	2,965,000	3,478,385
Other Liabilities	(1,700)	(1,689)
Total Liabilities	\$ 63,052,300	\$ 68,177,102
Fund Equity	15,051,700	25,890,724
Total Liabilities & Fund Equity	\$ 78,104,000	\$ 94,067,826

INCOME STATEMENT

Year Ending	August 31, 2012 (Preliminary)	August 31, 2011
Income		
Membership Fees	\$ 900	\$ 1,400
Interest Income	1,818,200	2,095,413
Assessments Income	1,599,500	8,094,175
Miscellaneous Income	7,204,500	12,062,351
Total Income	\$ 10,623,100	\$ 22,253,339
Expenses		
Refund to Commissioner/Liquidators	\$ 328,700	\$ 4,510,860
Refund to Member Insurers	16,700,000	10,300,025
Operating Expenses	2,000,000	1,962,358
Claims Paid (Net)	6,585,500	8,189,989
Claim Expenses	1,084,000	776,639
Premium Refunds	-	-
Total Expenses	\$ 26,698,200	\$ 25,739,871
Net Income (Loss)	\$ (16,075,100)	\$ (3,486,532)

NCRB-NCRF-NCIGA SHARED RESOURCES



Vicki Godbold
DIRECTOR, HUMAN RESOURCES AND ADMINISTRATIVE SERVICES

Human Resources (HR) is the strategic and coherent approach to the management of our organizations most valued assets — the people. HR responsibilities include administering HR policies, programs and practices and providing a safe work environment, professional development opportunities and work-life balance for our associates. This year we've been most involved with employee wellness initiatives and preparing and completing the successful move of our facility to a new location.



Shelley Chandler
DIRECTOR, INFORMATION SERVICES

Information Services (IS) is responsible for Process Documentation/Process Improvement and Systems Availability. The process documentation services team is actively working to create a process-driven environment. This approach will promote a culture where processes are identified, documented, measured, managed and improved, which will ultimately result in higher customer satisfaction, reduction in errors and lower costs.

As technology continues to become an increasingly important component of business, the technology area works to ensure that systems are effective, reliable and more secure. This year, our emphasis has been on replacing our phone and voicemail systems with a new VOIP phone system and moving our data center to our new physical location.



David Sink
DIRECTOR, FINANCE

The Finance Department is responsible for providing accounting and investment services to the organizations. This responsibility includes financial payments and the proper allocation of expenses between the accounts of the association and the respective insolvencies.

NCIGA MANAGEMENT STAFF



William Delbridge
MANAGER, CLAIMS



Rowena Ball
SUPERVISOR, WORKERS'
COMPENSATION CLAIMS



Donna Kallianos
SUPERVISOR, CASUALTY CLAIMS





North Carolina Insurance Guaranty Association

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