

# NCIGA



North Carolina Insurance Guaranty Association  
**2019 Annual Report**

# Insurance Guaranty Association

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**Allen Houck**  
Chairman

## Message from the Chairman

As we closed out the 2017-2018 fiscal year, the Association's leadership team and Board of Directors understood that the 2018-2019 fiscal year was going to have significant challenges. More specifically, these challenges were in the form of complicated insolvencies and claims, combined with efforts to ensure that claims staff had the knowledge, tools and resources to service these claims effectively. We are pleased to report that these challenges have been met head on, and the Association is doing very well in handling them.

In the more recent insolvencies for which the Association has been activated (including one new one in 2019), there has been a consistent theme of concurrent coverage issues, fronting arrangements and large deductible policies which have required significant research by staff as well as legal assistance in ensuring the Association continues to act in accordance with its legislative mandate. The Association staff, led by Chief Operating Officer Donna Kallianos, deserves significant credit for identifying these issues and engaging legal support where necessary to protect the Association's, and thereby the member companies' interests.

On a better note, the end of the Reliance insolvency—the largest in the Association's history—is in sight, and it appears that the Association will ultimately recover from the Reliance estate nearly 100% of agreed amounts paid—which is approximately \$100 million. (Note that much of this has previously been refunded to member companies). There are also several other estates on the horizon where closing appears imminent.

Our Association is actively involved with the National Council of Guaranty Funds, as well as with other regional state guaranty funds, and was pleased to host the Southeastern Regional meeting held at the Washington Duke in Durham in March of 2019.

The Association also continues to play a major role in the management of the "CMFTS" (Claims Management Financial Tracking System) group by accepting leadership roles on a subgroup of participating state guaranty funds created to oversee the ongoing activities and developmental needs of their software system.

The Association's core activities for the year were the following:

- Net claims paid during the reporting year were \$8.2 million. 650 claims were closed during reporting year, while 374 new claims were reported.
- The Association refunded \$5 million to member companies. \$4.9 million of the member refunds related to the workers' compensation account. \$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, 2019.

Finally, I would like to thank Managing Secretary Ray Evans, for his superior leadership and guidance. He has assembled a great team at the Association, and we are very fortunate to have his services.

# 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 Ins. Co	Gregory Lonnecker
NC Farm Bureau Mutual Ins. Co	Allen Houck*
State Farm Mutual Auto Ins. Co	Brianne Jones**
Travelers Indemnity Co	D. Keith Bell
Non-voting Member	Representative
Property & Casualty Agent	John Cook

# Subcommittee

The Audit Committee of the Board of Directors 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’s involvement in cases related to the bar date and statute of repose provisions of the Guaranty Act has continued. In the case of *Booth v. Hackney*, following the decision of the North Carolina Court of Appeals upholding the constitutionality of the bar date and statute of repose provisions of the Guaranty Act, the Full Industrial Commission issued an Opinion and Award in favor of the Association on the merits of those statutory provisions. That Opinion and Award has now been appealed by the Plaintiff to the North Carolina Court of Appeals, where further appellate proceedings will be required to obtain a final resolution of this case. The Association expects a decision from the North Carolina Court of Appeals sometime in early 2020. Until that final decision, 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 will remain stayed.

The past year has also seen the Association continue its efforts to pursue recoveries from 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, particularly those related to the insolvency of Guarantee Insurance Company, the Association has elected to allow the receiver to pursue recoveries on behalf of the Association. In other cases, the policyholders have raised legal

defenses to the Association’s claims which will require court resolution, including one case involving an insured of Freestone Insurance Company which is now on appeal to the North Carolina Court of Appeals. The Association will continue to pursue actively its rights to seek recoveries from these large deductible policyholders.

The Association is also actively pursuing recoveries from other solvent insurance companies under the nonduplication of recovery provisions of the Guaranty Act. In a number of recent insolvencies of workers compensation insurers, insureds that are professional employer organizations often have overlapping policies with multiple insurers. In addition, there are “special employers” who also have separate coverage that may be applicable to a claim. In these cases, the Association investigates whether these coverages are required to be exhausted, and these other solvent insurers can be pursued as an additional source of obtaining recovery of claim payments made by the Association.

Finally, 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 continues to work with the North Carolina Department of Insurance in connection with final closing of the domiciliary estate proceeding for CAGC Insurance Company. The Association is also working with the receiver of South Carolina Insurance Company to return remaining special deposit proceeds and close that insolvent estate. 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

In last fall's 2018 report, I wrote about how pleased I was with the management team and their ability to gear up successfully, and then execute the response to the Guarantee Insurance Company insolvency. During 2019, I have been equally impressed with how Donna, Tammy, Kim and Sloan have continued to meet the challenges of day-to-day operations.

I remember the days before the firehouse concept, when the role of the Guaranty Association was to wait until there was an insolvency, and then marshal resources to pay covered claims of the insolvent insurer with the statutory goal of preventing financial loss to policyholders. While that role and responsibility remain, the environment in which we operate has changed tremendously. The last half dozen or so insolvencies have been primarily workers compensation. In general, the insolvent carriers had insured large employers, mostly because they were able to reduce premiums substantially by utilizing large deductibles, self-insured retentions and unusual reinsurance or risk-sharing schemes, which ultimately were a big part of their demise.

This means that in today's environment, where the Guaranty Association protects the fall out, successfully fulfilling the guaranty role requires a multi-talented staff which now includes these skills:

- Being able to do "forensic adjusting" to reconstruct files and how policies were written and who is covered
- Being experienced in policy language and interpretation to determine the intent of the policy
- Having a skilled legal staff with good litigation skills to collect money from large deductible policies, net worth insureds or enforce no coverage decisions
- Being a statistician to report properly in a "format fluid environment" to satisfy receivers' requirements for proper reimbursement of claims costs and expenses
- An IT expert to support the systems that do the electronic work in the background as everything is "on the computer"
- A conciliator, mediator and leader to help multiple guaranty funds, receivers and insurance departments ensure they are on the same page
- But, ultimately, we also need to be good claim adjusters managing a large book of business.

This is a tall order, but you will see on the following pages how well staff is understanding, adapting and executing operations so that we not only protect claimants and policyholders, but also protect carriers and the taxpayers of North Carolina by paying only appropriate claims, and recovering all to which we are entitled through the estate.

You will also see in this report that the Guaranty Association is big business. We have a \$3 million budget and \$90 million in reserves, among other financial details. We appreciate the work of Edith Davis, Chief Financial Officer, and her staff in helping us manage, account for, assess, refund and secure our money details. I also thank the Board of Directors and Chair Allen Houck for being available and helpful, and offering good counsel as our environment changes.



**Ray Evans**  
Managing Secretary, IGA

A handwritten signature in black ink that reads "Ray Evans". The signature is written in a cursive, flowing style.

# Chief Operating Officer's Report



It is hard to believe that I am approaching two and a half years in the role of Chief Operating Officer (“COO”), now having my “third” annual report under my belt and every confidence in the old adage the “third time” is a charm. Maybe not a charm, but I can attest that I am feeling more at ease with my role and the overall direction of the NCIGA as we strive to meet our duties as set forth by the Guaranty Act. Switching “third” to “three,” I wish to focus on three main topics (1) my growth as the “COO,” (2) the growth of the NCIGA and (3) our performance this fiscal reporting year.

Let’s begin with my personal development as the Chief Operating Officer, a type of “State of the COO Address,” if you allow. My predecessor, working in threes, told me within three years, I would find that at least 80 percent of the job would become rote; after all, our main functions are to pay covered claims, report data to the appropriate parties and seek appropriate recoveries of funds within the confines of the applicable policy and the Guaranty Act. I remember him smiling and stating that the other 20 percent of the job was doing those tasks in an efficient and cost-effective manner, a skillset that will require continuous refinement for the rest of my career. A wise man indeed.

The second thing he told me was, “yes, it can be lonely at the top, but you don’t really need to be alone in the decision-making process.” I have taken this to heart and seek counsel from multiple sources, including my peers at the NCRB-NCRF- NCIGA (the Organization), other Industry sources such as the NCIGF and my fellow managers at the various state guaranty funds. Additionally, I seek advice and guidance from our outside general counsel, the managing secretary of the organization and the NCIGA Board of Directors. By keeping the proper individuals informed and in agreement with significant activities of the Association, the boat does seem a little larger.

Lastly, I was advised not to expect to know all the answers as the insolvency story is still being written. This fear of the unknown and desire not to make a mistake, is a normal reflex as no one wishes to fail. I feel more comfortable in the unusual position of fully expecting the unexpected to arise out of a new insolvency or court ruling. The trick is to be prepared for that challenge and realizing you have resources, assets and possibly others facing this latest twist on the insolvency story.

The second discussion topic is the growth of the NCIGA operations, a continuation of sorts on the theme of threes including: (1) training

and maturity of the staff, (2) ongoing pursuit of recoveries and (3) development and utilization of technology. The increased number of PEO (Professional Employer Organization) claims received by the Association has brought with it challenges of complex coverage determination, making it, at times, difficult to evaluate coverage under the policy of insurance and the Guaranty Act. Continual training during the year of all NCIGA associates (group and individual), conducted in conjunction with a maturing staff, has helped in the development of keen analytical skills critical to tackling these coverage issues.

Operational growth involving recoveries of spent funds was attained through a focused approach to recognize all other available coverages, in fulfillment of the Association’s statutory responsibility of reducing claims against receiverships, and refunding member companies for insolvency assessments. Identification of concurrent coverage in the Guarantee Insurance Company (“GIC”) insolvency, and pursuit of large deductible recoveries were accomplished utilizing the policy and Guaranty Act, in addition to heavy involvement of outside general counsel in those efforts. I would also make the case that a recovery can be realized, if through proper coverage analysis, a determination of no coverage results in a file never being accepted for guaranty handling. Although this type of “recovery” is not reflected in the dollars collected by the Association, it certainly can affect the bottom line, giving weight to the many identified through the course of this year.

The last area of operational growth is the development and utilization of technology. We have been reporting on our new claims management and financial tracking system (CMFTS) for the last couple of years and in truth, it isn’t so new in terms of “software years,” although we continue to make enhancements to the product. What is new is our ability to use the software’s critical data collection capability via various screens and data fields, at times creating new ones, and our evolving skills to query/develop reports to extract the information. A good example is that we can now capture data for concurrent coverage on screens within the system which previously required multiple pages of Excel spread sheets to track. Technical advances not incorporated within the CMFTS product include utilization of ISO indexing software for injury searches/fraud detection and ClickTime, a software for tracking associate time among the respective insolvencies.

This fiscal year was a success for NCIGA operations as the various reports and charts in the annual report will confirm. We activated for a new insolvency and continued work on Guarantee Insurance Company, whose concurrent coverage issues have kept staff and counsel busy. We continue efforts with counsel’s assistance to conclude large deductible litigation and recoveries from various insolvencies. Additionally, we hosted the Southeastern Insurance Guaranty Association meeting in Durham, which was regarded as a success by the 13 state funds in attendance for the event.

For the record, staff worked diligently to resolve and close many cases across all insolvencies while laying the groundwork for significant potential recoveries under concurrent policies for “GIC” insureds. The specifics are reported in the Claims and Claims Expenses documents detailed in the annual report as are our efforts to operate efficiently, utilizing various vendor services for claims administration.

**Donna Kallianos**  
Chief Operating Officer

## Balance Sheet

Year Ending	August 31, 2019 (Preliminary)	August 31, 2018 (Final)
<b>Assets</b>		
Cash (Checking Account)	\$ 604,200	\$ 523,119
Investments	109,900,000	97,326,289
Assessments Receivable	-	-
Other Assets	-	-
<b>Total Assets</b>	<b>\$ 110,504,200</b>	<b>\$ 97,849,408</b>
<b>Liabilities &amp; Fund Equity</b>		
Accounts Payable	-	-
Claims Liability	84,800,000	73,555,688
Unearned Premium Liability	-	-
Claims Expense Liability	6,700,000	7,338,739
Other Liabilities	(1,689)	(1,689)
<b>Total Liabilities</b>	<b>\$ 91,498,311</b>	<b>\$ 80,892,738</b>
Fund Equity	19,005,889	16,956,670
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 110,504,200</b>	<b>\$ 97,849,408</b>

## Income Statement

Year Ending	August 31, 2019 (Preliminary)	August 31, 2018 (Final)
<b>Income</b>		
Membership Fees	\$ 900	\$ 650
Interest Income	1,765,000	1,330,917
Assessment Income	5,000,000	8,500,000
Miscellaneous Income	24,900,000	21,572,557
<b>Total Income</b>	<b>\$ 31,665,900</b>	<b>\$ 31,404,124</b>
<b>Expenses</b>		
Refund to Commissioner/Liquidators	-	-
Refund to Member Insurers	\$ 5,000,000	\$ 5,000,000
Operating Expenses	3,700,000	3,095,541
Claims Paid (Net)	7,350,000	6,525,519
Claims Expenses	907,600	1,024,491
Premium Refunds	521,000	9,624
<b>Total Expenses</b>	<b>\$ 17,478,600</b>	<b>\$ 15,655,175</b>
<b>Net Income/(Loss)</b>	<b>\$ 14,187,300</b>	<b>\$ 15,748,949</b>

## Claims Paid Detail

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
Affirmative Ins. Co				\$25,000	\$3,911	\$28,911
Atlantic Mutual Ins. Co	\$168,484	\$8,788	\$177,272			
CAGC Insurance Co	\$577,901	\$5,350	\$583,250			
Casualty Reciprocal	\$27,097	\$4,164	\$31,261			
Centennial Ins. Co	\$28,053	\$820	\$28,873			
Credit General Ins. Co	\$401,757	\$22,165	\$423,921			
Employers Casualty Co	\$13,333	\$1,474	\$14,807			
Freestone Ins. Co	\$496,688	\$42,936	\$539,624			
Fremont Indemnity Co	\$58,814	\$5,025	\$63,839			
Guarantee Insurance Co	\$2,840,654	\$616,765	\$3,457,419			
Home Insurance Co	\$176,127	\$9,645	\$185,772			
Legion Insurance Co	\$223,297	\$16,746	\$240,043			
Lumberman Mut. Group	\$1,580,327	\$72,442	\$1,652,770			
Lumbermens' Underwriting Alliance	\$238,534	\$6,277	\$244,811			
Northwestern Nat'l Ins. Co						
Park Ave P&C	\$42,513	\$3,355	\$45,869			
Reliance Insurance Co	\$1,304,409	\$38,596	\$1,343,006			
Shelby Insurance Co						
South Carolina Ins.	\$229	\$2,498	\$2,727			
ULLICO Cas. Co		\$9,586	\$9,586			
Villanova Insurance Co	\$2,672	\$272	\$2,944			
888 WC Mutual Trust	\$151,961	\$36,236	\$188,197			
999 WC Stock Trust	\$54,539	\$532	\$55,071			
<b>Gross Total</b>	<b>\$8,387,389</b>	<b>\$903,672</b>	<b>\$9,291,062</b>	<b>\$25,000</b>	<b>\$3,911</b>	<b>\$28,911</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					\$5,000	\$1,808	\$6,808	1
Atlantic Mutual Ins. Co	\$3,756,472	\$116,369	\$3,872,841	5				
CAGC Insurance Co	\$8,332,994	\$290,328	\$8,623,322	11				
Casualty Reciprocal	\$983,599	\$54,606	\$1,038,204	4				
Centennial Ins. Co	\$753,788	\$44,216	\$798,004	2				
Credit General Ins. Co	\$4,379,098	\$228,290	\$4,607,389	4				
Employers Casualty Co	\$146,319	\$23,421	\$169,740	2				
Freestone Ins. Co	\$2,186,346	\$322,681	\$2,509,026	8				
Fremont Indemnity Co	\$1,283,121	\$27,896	\$1,311,017	4				
Guarantee Insurance Co	\$7,393,922	\$1,630,016	\$9,023,938	129				
Home Insurance Co	\$3,446,126	\$528,111	\$3,974,236	17				
Legion Insurance Co	\$3,991,083	\$421,700	\$4,412,782	15				
Lumberman Mut. Group	\$22,929,821	\$783,728	\$23,713,549	49				
Lumbermens' Underwriting Alliance	\$1,451,904	\$34,830	\$1,486,734	6				
Northwestern Nat'l Ins. Co	\$145,501		\$145,501	77				
Park Ave P&C	\$1,395,326	\$103,575	\$1,498,902	1				
Reliance Insurance Co	\$19,481,365	\$1,592,299	\$21,073,665	50				
Shelby Insurance Co								
South Carolina Ins.	\$23,906	\$55,833	\$79,738	4				
ULLICO Cas. Co		\$5,654	\$5,654	1				
Villanova Insurance Co	\$252,831	\$35,923	\$288,754	2				
888 WC Mutual Trust	\$1,251,544	\$209,623	\$1,461,167	16				
999 WC Stock Trust	\$860,447	\$79,197	\$939,644	3				
<b>Total</b>	<b>\$84,445,513</b>	<b>\$6,588,296</b>	<b>\$91,033,807</b>	<b>410</b>	<b>\$5,000</b>	<b>\$1,808</b>	<b>\$6,808</b>	<b>1</b>

## Claims Paid Detail

	All Other			Total
	Indemnity Paid	Expense Paid	Total Paid	
Affirmative Ins. Co				\$28,911
Atlantic Mutual Ins. Co				\$177,272
CAGC Insurance Co				\$583,250
Casualty Reciprocal				\$31,261
Centennial Ins. Co				\$28,873
Credit General Ins. Co				\$423,921
Employers Casualty Co				\$14,807
Freestone Ins. Co				\$539,624
Fremont Indemnity Co				\$63,839
Guarantee Insurance Co				\$3,457,419
Home Insurance Co				\$185,772
Legion Insurance Co				\$240,043
Lumberman Mut. Group				\$1,652,770
Lumbermens' Underwriting Alliance				\$244,811
Northwestern Nat'l Ins. Co				
Park Ave P&C				\$45,869
Reliance Insurance Co				\$1,343,006
Shelby Insurance Co				
South Carolina Ins.				\$2,727
ULLICO Cas. Co				\$9,586
Villanova Insurance Co				\$2,944
888 WC Mutual Trust				\$188,197
999 WC Stock Trust				\$55,071
<b>Gross Total</b>				<b>\$9,319,973</b>
				<b>Recoveries</b>
				<b>\$ (1,075,539)</b>
				<b>Net Claims Expenditure</b>
				<b>\$8,244,434</b>

## Claims Reserved Detail

	All Other				Total	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserves	Total Pending
Affirmative Ins. Co					\$6,808	1
Atlantic Mutual Ins. Co	\$60,002	\$86,382	\$146,384	3	\$4,019,225	8
CAGC Insurance Co					\$8,623,322	11
Casualty Reciprocal					\$1,038,204	4
Centennial Ins. Co					\$798,004	2
Credit General Ins. Co					\$4,607,389	4
Employers Casualty Co					\$169,740	2
Freestone Ins. Co					\$2,509,026	8
Fremont Indemnity Co					\$1,311,017	4
Guarantee Insurance Co					\$9,023,938	129
Home Insurance Co					\$3,974,236	17
Legion Insurance Co					\$4,412,782	15
Lumberman Mut. Group	\$5,130	\$815	\$5,945	5	\$23,719,494	54
Lumbermens' Underwriting Alliance					\$1,486,734	6
Northwestern Nat'l Ins. Co	\$238,360		\$238,360	1	\$383,861	78
Park Ave P&C					\$1,498,902	1
Reliance Insurance Co	\$200	\$200	\$400	1	\$21,074,065	51
Shelby Insurance Co						
South Carolina Ins.					\$79,738	4
ULLICO Cas. Co					\$5,654	1
Villanova Insurance Co					\$288,754	2
888 WC Mutual Trust					\$1,461,167	16
999 WC Stock Trust					\$939,644	3
<b>Total</b>	<b>\$303,692</b>	<b>\$87,397</b>	<b>\$391,089</b>	<b>10</b>	<b>\$91,431,704</b>	<b>421</b>

# Shared Services

## Information Services



**Shelley Chandler**  
Chief Information Officer

Information Services 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 all three organizations (NCIGA, NCRB & NCRF), but also to introduce innovative strategies that guarantee robust systems and applications, and allow for expansion in areas where progress is desired.

Technology is only possible with the dedication and heart of our associates. We are proud to announce that in 2019, Faye Helms, IT Service Desk Analyst, has celebrated 60 years with our organizations. She is an asset to our Service Desk and always has a smile to brighten her customer's day.



**Faye Helms**  
IT Service Desk Analyst

In 2019, we made significant staffing changes to enable us to focus on technology solutions and protect our environment from increasing threats. We now have a resource dedicated to our security posture. Frank Lonnett moved into the role of Director, IT

Information and Data Security. Frank has worked with the Organizations for nine years in the Director, Infrastructure and Operations role, and therefore has a unique perspective on our new security role. In addition to training and transitioning the Infrastructure duties to a replacement, Frank has been able to move our Security program forward. We continue to evaluate new legislation surrounding privacy and cybersecurity to ensure that we are meeting obligations when necessary and working to ensure our security posture will help us be prepared for future legislation.

We continue 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 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. In addition to internal testing, we also began conducting risk assessments for our 3rd party providers to ensure all the data we work with is safe.

A significant amount of effort is spent resolving daily issues that impact productivity and that 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. From an infrastructure standpoint, we've implemented projects that continually improve our environment. In 2019, we continue to upgrade hardware, operating systems and modernizing Enterprise Services to current releases and versions. The infrastructure group also

continues to refine our disaster recovery strategy to ensure the best outcomes when needed. While we have never experienced a major business interruption, it is important that we are prepared to detect and respond to potential events.

Project work also contributes to our goal of promoting efficiency through our organizations and for our customers. The Software Development group continues to work to enhance the software products used by the IGA. In 2019, the group worked to develop additional reports, automate business rules, extract data and document complex processes. We also participate in industry events to remain up to date with broad technology issues as well as IGA specific needs.

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

## Human Resources and Facility Services



**Vicki Godbold**  
Chief Human Resources  
Officer

*"Alone we can do so little, together we can do so much."*—Helen Keller

Our approach to Human Resources is strategic and comprehensive, with a focused commitment to the Organization's most valued assets—our people. Facility Services play an essential role in ensuring a secure and comfortable work environment for all employees, along with providing mail and receptionist services for the organization. During the past year, three additional outdoor cameras were installed

to safeguard the premises better. Human Resources also contracted with an outside vendor to conduct a Compensation Audit to confirm pay matched market rate for our positions. The audit concluded we are at 103% of the 50th percentile, supporting the organization's goal of paying rates within industry standards.

Our Wellness Program consists of

- a partnership with WakeMed Hospital,
- a partnership with YogaBlyss,
- 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, weekly on-site yoga classes, management on-site training and off-site training for new management staff.

Community Service involvement by our associates this year included the United Way and various charities of the associate's choice.

## Finance



**Edith Davis**  
Chief Financial Officer

Things have begun to level off in the Association this year. Staffing levels have remained stable, and there has been only one new insolvency activated in the past 12 months.

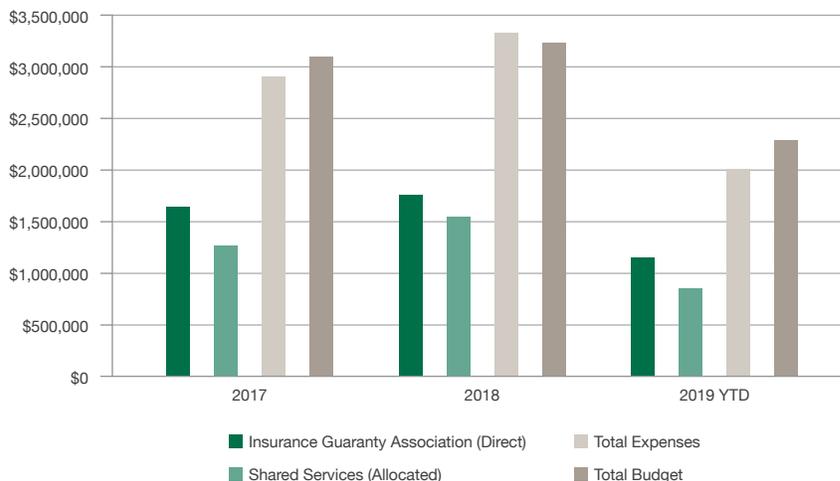
The financial position is summarized in the exhibits on page six, which reflect the comparative balance sheets and income

statements for the latest two fiscal years ending August 31. The assets of the Association totaled approximately \$110.5 million on August 31, 2019—an increase of about 13% or \$12.6 million from a year ago. This was a big driver for the 33% increase in investment income, totaling about \$435 thousand over the prior year. Although there was some repositioning of the assets within the investment portfolio during the current year to take advantage of shifts in market rates, which added several basis points to the overall return, the portfolio remained within compliance with the approved guidelines.

The 2019 reserves for claims and claims expenses increased more than 13% compared to August 31, 2018, balances. The net claim and claim expense payments totaled \$8.3 million over the past 12 months—an increase of about 9% over the prior report year, primarily the continued effect of the sizable Guarantee Insurance insolvency activated in late 2017. Income for this year was approximately \$31.7 million and only a slight increase over 2018. Most of this income was from distributions from liquidators, including approximately \$12.2 million from the estate of Reliance, \$1.3 million from the estate of Villanova Insurance and significant large deductible and net worth recoveries. In December 2018, there was a \$5 million assessment to fund the Guarantee Insurance insolvency; however, it was fully offset by \$5 million in refunds to member companies for older insolvencies.

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

**North Carolina Insurance Guaranty Association Administrative Expenses**



Administrative Expenses	2017	2018	2019 YTD
Insurance Guaranty Association (Direct)	\$ 1,646,966	\$ 1,774,888	\$ 1,156,405
Shared Services (Allocated)	\$ 1,270,484	\$ 1,554,693	\$ 862,438
Total Expenses	\$ 2,917,450	\$ 3,336,221	\$ 2,021,738
Total Budget	\$ 3,110,146	\$ 3,253,831	\$ 2,301,299

report reflect a summary of the direct and allocated expenses for the prior two years on a calendar basis and the first half of 2019. The Association finished 2018 slightly over budget, primarily due to activity related to the new insolvency, but is currently projected to remain within budget for the 2019 calendar year.

The audit firm of Johnson Lambert once again performed the annual review of the Association's financial records. The firm issued a clean opinion on the Association's audited financial statements and conducted the required communications to the Committee, noting there were no misstatements or internal control weaknesses identified during the audit and that the significant accounting policies had been consistently applied during the current year.

Organizational risk management initiatives included the Association, in conjunction with its sister organizations, focusing a heightened awareness on security, training and financial controls and reviewing and updating business insurance coverages. A new invoice and document portal is in the works and should be placed into production in 2020, improving access and customer service to our member companies, and analysis has begun for the replacement of several aging key systems in coming years.

So another very busy year has passed. We will continue to look for ways to modernize our processes and systems while remaining cost effective to our stakeholders. We thank our staff, the Board, committee members and counsel for all of their support throughout the year—it is truly appreciated.

# NCIGA



North Carolina Insurance Guaranty Association

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