



NCIGA

2020 Annual Report
North Carolina Insurance Guaranty Association





NC Insurance Guaranty Association

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Message from the Chairman



Allen Houck
Chairman

Over the last several years, the North Carolina Insurance Guaranty Association has devoted significant time, energy, and resources to handle transitions of key staff into new leadership roles, to adjust increasingly complicated claims from insolvent insurers (which often, unfortunately, involve litigation), and to ensure that the claims team has the systems, support, and training to allow the Association to perform its duties effectively and efficiently. Those efforts proved wise and beneficial throughout a tumultuous 2019-2020 fiscal year.

As with literally every business/association in the United States and most of the world, the Association had to address the challenge of working within the obstacles presented by COVID-19, and was able to do so quite successfully. Our Chief Operating Officer, Donna Kallianos, addresses this in more detail in her report.

The Association activated for one new insolvency during the year, Gateway Insurance Company of Illinois. Fortunately, this appears to be a small insolvency with respect to covered North Carolina claims. Conversely, the CAGC estate was closed out in January 2020.

Negotiations were successfully completed with our key software provider to ensure the continuity of our claims operations processes on a go-forward basis. We participate with a group of seven other state guaranty associations in the management and on-going development of this claims system.

We received a favorable ruling in a North Carolina Court of Appeals decision, which upheld what we understand to be the applicable law that dictates our duties as an Association, as intended by the North Carolina Legislature and codified in statute.

Our senior management team has developed expertise on an industry-wide issue regarding coverage provided to PEOs and special employers, and they are frequently sought by other state guaranty funds for assistance in handling these types of claims.

It was a successful year in recoveries, driven by positive results from large deductible litigation and collection of excess coverage reimbursements.

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

- Net claims paid during the reporting year were \$4.2 million. Additionally, 188 claims were closed during the reporting year.
- The Association refunded \$8.57 million to member companies. The refunds consisted of \$8.2 million in workers compensation of which \$400,000 was to the Stock and Mutual WC Trust Accounts, \$178,000 in Automobile, and \$170,000 for the All Other Account. \$12.3 million in assessments were made against member companies during the fiscal year.
- Staff and counsel continued aggressive pursuit of all avenues of recovery with total recoveries of \$4.4 million collected through August 31, 2020, which is inclusive of amounts not posted against claim payments..

Donna Kallianos and her team at the Association deserve credit and recognition for an outstanding year amidst many significant challenges.

Lastly, I would like to again recognize Managing Secretary Ray Evans for his superior leadership and guidance. Ray has a well-deserved reputation as an iconic figure in the North Carolina insurance industry, and we are fortunate to continue to have him directing our organization along with the North Carolina Reinsurance Facility and the North Carolina Rate Bureau.

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

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*, the North Carolina Court of Appeals issued an Opinion dated April 7, 2020, affirming the dismissal of the Association from proceedings before the Industrial Commission based upon application of the plain language of the bar date and statute of repose provisions. The Plaintiff has filed a Petition for Discretionary Review with the North Carolina Supreme Court, which the Association has opposed. The Association expects a decision from the North Carolina Supreme Court on the Petition for Discretionary review before the end of 2020. Until a final decision on that Petition for Discretionary Review, other workers compensation cases pending at the Industrial Commission 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. One case involved an insured of Freestone Insurance Company known as AccuForce Smart Solutions ("AccuForce"), a Tennessee-based staffing company. In an Opinion dated November 5, 2019, the North Carolina Court of Appeals affirmed a summary judgment granted in favor of the Association. AccuForce has filed a Petition for Discretionary Review with the North Carolina Supreme Court which the Association has opposed. The Association expects a decision from the North Carolina Supreme Court on the Petition for Discretionary review before the end of 2020. The Association will continue to actively pursue 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 temporary staffing companies 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 whether these other solvent insurers can be pursued as an additional source of obtaining recovery of claim payments made by the Association.

In the past year, the Association has monitored litigation in California between the California Insurance Guarantee Association ("CIGA") and the Centers for Medicare and Medicaid Services ("CMS"). In *CIGA v. Azar*, 940 F.3d 1061 (9th Cir. 2019), the federal Ninth Circuit Court of Appeals held that CIGA was not a "primary plan" under the Medicare Secondary Payer Act, and that CIGA has no obligation to reimburse the Government for conditional payments the Government makes to Medicare beneficiaries. Based upon the decision in *Azar*, CIGA recently received confirmation from CMS that CIGA was no longer required to meet Section 111 reporting requirements for payments made by CIGA. Since the Association is similarly situated to CIGA as a statutory association that provides limited benefits as a last resort upon the insolvency of an insurer, the Association has sent a letter to CMS asking for the same relief that has been granted to CIGA. The Association is hopeful that these issues can be resolved amicably with CMS without the need to pursue litigation.

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. In the past year, the Association saw the final closing of the domiciliary estate proceeding for CAGC Insurance Company ("CAGC"). As a result of the closing of the CAGC insolvency, the Association received its share of the distribution of the remaining assets of CAGC and assumed the ongoing obligation to bill directly excess insurers for remaining CAGC claims. 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.



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



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

Managing Secretary's Report



Ray Evans
Managing Secretary, IGA

When the NCIGA, NCRE, & NCRB prepared our plans for 2020, including projects we would undertake, budgets we would adhere to, training we would do and goals we would achieve, little did we know that three months into the year, everything would go upside down. For years, the organizations have had a disaster recovery/business continuity plan that would be updated and modified, but never did it include the possibility that a local health official could keep us from working at the office. During the first few days of March when such an event appeared to be a possibility, we spent the week of March 8,

planning, buying equipment, and reviewing our processes, but ready or not on March 13, it appeared that quarantine was the future. With a huge effort from our IS folks, and the cooperation of all of our associates, by March 17, we had morphed from 100% work at the office to 100% work from home.

Many months have passed since we made this change, and we remain successfully working from home. In fact, because of the number of associates that are in susceptible classes and others who have children in school, not to mention travel restrictions in place for members of our committees and boards, we are currently not planning much activity in the office until January. However, we are prepared with PPE, entry testing, social distancing protocols, and plexiglass partitions in the lobby, meeting rooms and other spaces so that whenever we decide to return significant numbers of associates to the office, we can do it safely. We will not rush as the safety of our associates is most important.

There are four keys to the Guaranty Association being able to work remotely:

- We have great associates, managers and supervisors. I also have a talented, engaged, energetic, and focused senior staff, who will add more color to the story later in this report,
- We worked for years to acquire a sophisticated electronic environment to carry out our responsibilities, and, by using a VPN, we can work from a home station that looks just like the one we were using in the office, including all of the security protections of the office,
- We have also worked regularly to install and keep current a process environment with training and education for all of our associates,
- And, we are regularly communicating with associates at a number of different levels. For now, gone are the times that we could just grab someone for an ad hoc meeting. Meeting agendas, details, and emails, especially those that have outside attendees, have tightened and become more precise so that attendees are better informed. Chairs of these meetings, who are doing a wonderful job for us, are also adhering to announced meeting times, hopefully reducing "Zoom fatigue." Together, all of this has resulted in better attendance, more constructive conversation, and more productive meetings. As an interesting factoid, we now average 27,000 meeting minutes on Zoom each week.

This adds up to executing successfully our responsibilities to fulfill the obligations embedded in the purpose of NCGS §58-48-5, to provide a mechanism for the payment of covered claims, to avoid excessive delay in payment, to avoid financial loss to claimants because of the insolvency of an insurer, and to provide a mechanism to assess the cost of this protection among insurers.

But, to help us fulfill these obligations each year requires more specific goals and objectives. The following pages will have much more detail, but here are the goals and objectives for 2020 which I am confident we will have achieved at year end:

- Maintain the "fire house" to enable a quick and effective response to future insolvencies, which requires a sophisticated electronic environment and a process environment.
- Manage the budget that has been approved by the Board.
- Manage reserves so that there will be sufficient monies to pay current claims as they mature.
- Recover all monies owed to the Guaranty Association, which now means reimbursement from receivers and collection from large deductible and net worth insureds.
- Maintain precise records as reporting to receivers, regulators, and other government entities is vital to recovery efforts.
- Manage litigation, as we have 8-10 individual litigation cases in play constantly.
- And, be a "player" in the broader Guaranty Fund community by participating in a variety of insurance industry and related activities.

This has been a different year, and I believe many of the ways we worked prior to 2020 will not be the same in 2021 and beyond. Although I have lost the author, I read many years ago that, "There are too many people praying for mountains of difficulty to be removed, when what they really need is courage to climb them." We still need the prayers, but our folks have demonstrated that collectively we have the courage, skill, and experience to continue to excel at what we do.

And, this year, needed more than ever, behind our associates is a large number of carrier employees, consultants, and attorneys that are helping guide our committees, providing invaluable consulting and legal advice and continued accessibility.

A special thanks to Allen Houck for his counsel as we have navigated through this year.

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

Chief Operating Officer's Report



While preparing to write this year's report, I looked back on prior editions to search for familiar themes, phrasings, and topics to cover. It then occurred to me that 2020 was clearly unique, as it could provide new words and terminology for consideration—"pandemic," "COVID-19," "shelter at home," "remote working," "social distancing," "zoom calls," "uncertain times," and "new normal." Daily activities previously viewed routine, such as traveling to work, dining out at restaurants, watching sporting events, and gatherings with friends, family and associates, would suddenly be disrupted by this novel coronavirus. You could then add the fear of sickness, even death, as this worldwide event became more and more part of everyday life, with the extent and duration still unknown. We witnessed acts of heroism from healthcare professionals and other first responders as they pushed through overwhelming circumstances, but began to appreciate the work of so many others as the grocery stores, food service industry, public transportation and utilities, to mention just a few, remained operational. Some of us have been able to "shelter at home" comfortably, whereas others, being deemed essential workers, have been asked to report to their respective trade or vocation—we thank you.

Added to the medical fears and emotional stressors, are the economic hardships and "uncertain times" facing numerous businesses and households, as the inability for some to pay for basic necessities, such as food and shelter, became a reality. Efforts to combat "COVID-19" created a downsizing of our economy, due to state shutdowns and phased reopenings, resulting in record levels of unemployment, loss of financial savings, and closure of generational-held businesses. While difficult to observe the hardships being experienced, it is equally fulfilling to see the efforts extended by multiple groups and agencies to help those in need, and trust that financial institutions such as the stock market, banks, and insurance companies continue to remain strong throughout this crisis.

That is when you fully appreciate the "safety network" provided by the guaranty fund system and the uninterrupted continuity of services it affords to the insurance-buying public. The system can be relied upon to deliver some sense of normalcy, a comfort, when the "new normal" has affected change in so many other aspects of life. Typically, a small part of each "COO" report touches upon efforts to refine the infrastructure necessary to carry out our mission statement, and the ongoing ability to respond to new insolvencies. Who could have imagined a global "pandemic" when readying the organization for simply the standard unexpected, as compared to the potential complications created by a contagious virus and the prolonged departure from our physical offices?

The good news to report is efforts initiated over the last several years, including the prudent investment in technology, permitted the NCIGA to use its claims management and financial tracking system (CMFTS), a cloud-based

solution, to transition effectively staff to a "remote working" environment. Laptops in hand, the Association, with assistance from our IS department, almost seamlessly, continued claim operations in fulfillment of our statutory obligations. Timely issuance of payments was achieved through a successful campaign promoting the utilization of ACH, along with a dedicated staff to ensure all other checks were promptly remitted. Previously established electronic processes enabled the NCIGA to be well positioned with our medical review and pharmacy management responsibilities, having no reliance on paper or manual procedures to impede remote functioning. Through our collaborative efforts with the CMFTS group (a subgroup of eight guaranty funds), additional system enhancements were developed, providing further refinement and methods of recording financial transactions, reports to support those activities, and the continued capability of electronic data submission for recovery and regulatory purposes.

While the year was somewhat overshadowed by the challenges created by "COVID-19," the NCIGA remained resolute in achievement of its objectives, including the successful negotiation of the Association's software renewal contract. The CMFTS executive team, of which the NCIGA is a member, was pleased with the terms reached, ensuring the continuation of an operating system for the next five years. Also noteworthy are the legal battles won at the NC Court of Appeals, upholding statutory provisions pertaining to large deductible obligations and the application of bar date and statute of repose provisions under the Guaranty Act. The year saw closure of insolvent estates, specifically CAGC, a North Carolina domestic, resulting in a 100% recovery from the receiver of monies paid by the Association within certain insureds' excess layer of coverage. Other insolvency activity remained slow, with the exception of activating for Gateway Insurance Company, an Illinois-based carrier presenting limited exposure to the NCIGA. Continued identification of special employers in PEO claims, as well as unwavering pursuit of net worth and large deductible insureds, including receiver reimbursements, resulted in collections of over \$4.4 million.

As the fiscal year neared conclusion, the Association embarked on what could be considered its most important initiative, seeking confirmation from "CMS" (Centers for Medicare & Medicaid Services) that it is not a primary payer plan for Medicare-eligible claimants based on *CIGA v Azar*, and should have no further responsibility for compliance reporting mandated under "Section 111." An affirmative decision will yield a significant financial impact, eliminating certain costs and risks associated with "MSP" (Medicare Secondary Payer) reporting—an outcome worth fighting for.

The year in summary has been unusual to say the least, but I am proud of our results and the efforts put forth by staff and management to adjust to "social distancing" at home and adapting to a new working environment, changes implemented under a plan lead by our managing secretary, Ray Evans. The Association has remained connected through "Zoom calls" and conferencing as evidenced by our team photo, and stands ready to respond quickly and efficiently in furtherance of our statutory responsibilities.

While the "pandemic" and its repercussions are still evolving, the NCIGA will shift course as needed to ensure the "safety net" remains in place for whatever lies ahead.

Donna Kallianos
Chief Operating Officer

Balance Sheet

Year Ending	August 31, 2020 (Preliminary)	August 31, 2019 (Final)
Assets		
Cash (Checking Account)	\$ 1,220,000	\$ 7,558,520
Investments	117,000,000	101,452,698
Assessments Receivable	-	-
Other Assets	-	-
Total Assets	\$ 118,220,000	\$ 109,011,218
Liabilities & Fund Equity		
Accounts Payable	\$ 32,000	-
Claims Liability	81,900,000	84,754,204
Unearned Premium Liability	-	-
Claims Expense Liability	5,900,000	6,677,500
Other Liabilities	(1,689)	(1,689)
Total Liabilities	\$ 87,830,311	\$ 91,430,015
Fund Equity	30,389,689	17,581,203
Total Liabilities & Fund Equity	\$ 118,220,000	\$ 109,011,218

Income Statement

Year Ending	August 31, 2020 (Preliminary)	August 31, 2019 (Final)
Income		
Membership Fees	\$ 850	\$ 950
Interest Income	2,574,000	1,879,606
Assessment Income	12,300,000	5,000,000
Miscellaneous Income	12,350,000	24,902,481
Total Income	\$ 27,224,850	\$ 31,783,037
Expenses		
Refund to Commissioner/Liquidators	\$ 300,000	\$ 3,425,380
Refund to Member Insurers	8,350,000	5,000,000
Operating Expenses	3,800,000	3,688,633
Claims Paid (Net)	4,100,000	7,205,218
Claims Expenses	260,000	781,566
Premium Refunds	11,000	520,441
Total Expenses	\$ 16,821,000	\$ 20,621,238
Net Income/(Loss)	\$ 10,403,850	\$ 11,161,799

Claims Paid Detail

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
Affirmative Ins Co					\$96.25	\$96.25
Atlantic Mutual Ins Co	\$163,823.08	\$12,013.04	\$175,836.12			
CAGC Insurance Co	\$350,798.08	\$2,962.38	\$353,760.46			
Casualty Reciprocal	\$11,145.31	\$2,076.96	\$13,222.27			
Centennial Ins Co	\$35,137.76	\$956.61	\$36,094.37			
Credit General Ins Co	\$447,591.38	\$7,576.95	\$455,168.33			
Employers Casualty Co	\$12,896.00	\$142.00	\$13,038.00			
Freestone Ins Co	\$80,213.89	\$17,470.53	\$97,684.42			
Fremont Indemnity Co	\$61,991.34	\$1,414.77	\$63,406.11			
Gateway Insurance Co						
Guarantee Insurance Co	\$1,392,761.92	\$281,155.67	\$1,673,917.59			
Home Insurance Co	\$152,532.06	\$17,694.96	\$170,227.02			
Legion Insurance Co	\$151,668.38	\$9,734.94	\$161,403.32			
Lumberman Mut. Group	\$1,926,093.01	\$43,268.73	\$1,969,361.74			
Lumbermens' Underwriting Alliance	\$123,243.26	\$6,383.75	\$129,627.01			
Northwestern Nat'l Ins Co	\$3,500.00	\$19,490.95	\$22,990.95			
Park Ave P&C	\$379,698.07	\$16,025.13	\$395,723.20			
Reliance Insurance Co	\$820,051.88	\$24,054.61	\$844,106.49			
Shelby Insurance Co						
South Carolina Ins		\$914.25	\$914.25			
ULLICO Cas. Co.						
Villanova Insurance Co	\$74,754.19	\$3,401.91	\$78,156.10			
888 WC Mutual Trust	\$66,071.88	\$33,110.93	\$99,182.81			
999 WC Stock Trust	\$52,082.42	\$539.87	\$52,622.29			
Gross Total	\$6,306,053.91	\$500,388.94	\$6,806,442.85		\$96.25	\$96.25

Claims Reserved Detail

	WC				Auto			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
Affirmative Ins Co								
Atlantic Mutual Ins Co	\$3,592,649.15	\$104,356.17	\$3,697,005.32	5				
CAGC Insurance Co	\$7,747,667.36	\$272,532.88	\$8,020,200.24	10				
Casualty Reciprocal	\$971,953.19	\$40,695.87	\$1,012,649.06	4				
Centennial Ins Co	\$718,650.67	\$43,259.09	\$761,909.76	2				
Credit General Ins Co	\$4,828,606.78	\$220,713.48	\$5,049,320.26	4				
Employers Casualty Co	\$133,422.92	\$23,278.82	\$156,701.74	2				
Freestone Ins Co	\$1,920,585.40	\$218,275.64	\$2,138,861.04	7				
Fremont Indemnity Co	\$1,221,128.53	\$25,218.25	\$1,246,346.78	3				
Gateway Insurance Co					\$41,912.15		\$41,912.15	3
Guarantee Insurance Co	\$5,835,140.16	\$1,354,392.92	\$7,189,533.08	75				
Home Insurance Co	\$8,020,089.46	\$398,121.60	\$8,418,211.06	19				
Legion Insurance Co	\$3,551,353.49	\$351,903.80	\$3,903,257.29	15				
Lumberman Mut. Group	\$20,632,797.03	\$786,234.07	\$21,419,031.10	57				
Lumbermens' Underwriting Alliance	\$1,332,360.98	\$27,291.16	\$1,359,652.14	5				
Northwestern Nat'l Ins Co	\$2,001.00	\$9,751.05	\$11,752.05	4				
Park Ave P&C	\$1,015,628.33	\$87,550.34	\$1,103,178.67	1				
Reliance Insurance Co	\$17,254,570.88	\$1,484,206.12	\$18,738,777.00	51				
Shelby Insurance Co	\$1.00	\$5,000.00	\$5,001.00	1				
South Carolina Ins	\$23,905.72	\$54,918.41	\$78,824.13	4				
ULLICO Cas. Co.								
Villanova Insurance Co	\$178,078.27	\$37,520.88	\$215,599.15	3				
888 WC Mutual Trust	\$1,728,318.27	\$176,011.25	\$1,904,329.52	19				
999 WC Stock Trust	\$808,364.55	\$78,657.00	\$887,021.55	3				
Total	\$81,517,273.14	\$5,799,888.80	\$87,317,161.94	294	\$41,912.15		\$41,912.15	3

Claims Paid Detail

	All Other			Total
	Indemnity Paid	Expense Paid	Total Paid	
Affirmative Ins Co				\$96.25
Atlantic Mutual Ins Co				\$175,836.12
CAGC Insurance Co				\$353,760.46
Casualty Reciprocal				\$13,222.27
Centennial Ins Co				\$36,094.37
Credit General Ins Co				\$455,168.33
Employers Casualty Co				\$13,038.00
Freestone Ins Co				\$97,684.42
Fremont Indemnity Co				\$63,406.11
Gateway Insurance Co				
Guarantee Insurance Co				\$1,673,917.59
Home Insurance Co				\$170,227.02
Legion Insurance Co				\$161,403.32
Lumberman Mut. Group				\$1,969,361.74
Lumbermens' Underwriting Alliance				\$129,627.01
Northwestern Nat'l Ins Co				\$22,990.95
Park Ave P&C				\$395,723.20
Reliance Insurance Co				\$844,106.49
Shelby Insurance Co				
South Carolina Ins				\$914.25
ULLICO Cas. Co.				
Villanova Insurance Co				\$78,156.10
888 WC Mutual Trust				\$99,182.81
999 WC Stock Trust				\$52,622.29
Gross Total				\$6,806,539.10
			Recoveries	(\$2,607,906.00)
			Net Claims Expenditure	\$4,198,633.10

Claims Reserved Detail

	All Other				Total	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserves	Total Pending
Affirmative Ins Co						
Atlantic Mutual Ins Co					\$3,697,005.32	5
CAGC Insurance Co					\$8,020,200.24	10
Casualty Reciprocal					\$1,012,649.06	4
Centennial Ins Co					\$761,909.76	2
Credit General Ins Co					\$5,049,320.26	4
Employers Casualty Co					\$156,701.74	2
Freestone Ins Co					\$2,138,861.04	7
Fremont Indemnity Co					\$1,246,346.78	3
Gateway Insurance Co					\$41,912.15	3
Guarantee Insurance Co					\$7,189,533.08	75
Home Insurance Co					\$8,418,211.06	19
Legion Insurance Co					\$3,903,257.29	15
Lumberman Mut. Group					\$21,419,031.10	57
Lumbermens' Underwriting Alliance					\$1,359,652.14	5
Northwestern Nat'l Ins Co					\$11,752.05	4
Park Ave P&C					\$1,103,178.67	1
Reliance Insurance Co					\$18,738,777.00	51
Shelby Insurance Co					\$5,001.00	1
South Carolina Ins					\$78,824.13	4
ULLICO Cas. Co.						
Villanova Insurance Co					\$215,599.15	3
888 WC Mutual Trust					\$1,904,329.52	19
999 WC Stock Trust					\$887,021.55	3
Total					\$87,359,074.09	297

Shared Services

Information Services



Shelley Chandler
Chief Information Officer

Information Services (IS) is dedicated to leveraging technology to enhance our business processes and fulfilling the needs of our customers, the NCIGA, NCRB, and NCRF. In late 2019, we strategically planned a portfolio of projects for 2020, allocating resources from the software development and infrastructure groups to achieve organizational initiatives. In early 2020, many projects were quickly scaled back, as we, along with the rest of the world, reacted to COVID-19. In just three days, IS was able to furnish almost all staff with the necessary equipment to work from home.

Uncertain of the virus' duration and the required response to potentially a short-term event, plans were developed to ensure all restructuring related to remote work was implemented as an investment in infrastructure as well as disaster recovery. As circumstances have evolved, the organizations are taking advantage of solutions that provide flexibility for associates to work both remotely and in the office, making us less dependent on a physical workspace.

In conjunction with the pandemic, 2020 has been full of unanticipated surprises associated with a vendor breach, a Microsoft audit, replacement of our virtual meeting solution, and several other unexpected technical situations. Despite the required shift in focus, many projects continued on schedule, due to the combined efforts of staff and the business units.

From the front lines of security, we maintain that the best defense against such risks continues to be employee training. In order to protect the data with which the organizations are entrusted, IS provides regular training assessments, routine phishing simulations, and utilization of other strategies to teach employees defense against common and emerging threats. Training has become increasingly more important as hackers are taking advantage of circumstances created by COVID-19 to escalate their attacks. Employees across the globe moved quickly to a work-from-home model, having no policy and procedures in place, allowing hackers to leverage such unknowns. Unusual times have created unusual circumstances where CEOs and IT departments are sending emails providing crisis management, new procedures for working remotely, and potentially new links to click on. Hackers are swiftly adapting and seizing the opportunity to access information in new ways. Our training over the years has provided a stable foundation where our associates recognize appropriate emails and requests, even during a crisis.

2020 also brought about the implementation of a gold standard endpoint protection platform, recognized for its ability to find and remediate threats quickly. This additional mechanism of defense is one more layer used in reinforcing our strategy. IS continues to strengthen and isolate our systems by upgrading perimeter security and limiting system permissions only to those users that require access to perform their job duties.

Project work also contributes to IS's goal of promoting efficiency through our organization and for that of our customers. The software development group works diligently to assist the organizations with software products. In 2020, we assisted the NCIGA with a significant re-negotiation of their software contract and created several reports to enhance functionality of the Association's claims system. Additionally, guidance was provided for renewal of other technical agreements, resulting in positive outcomes.

We look forward to the challenges that lie ahead as we continue providing solutions to the organizations that increase efficiency and help meet our members' needs through technology.

Human Resources and Facility Services



Vicki Godbold
Chief Human Resources Officer

"Life is about accepting the challenges along the way, choosing to keep moving forward, and savoring the journey."
—Roy T. Bennett

Our approach to Human Resources is strategic and comprehensive, focusing our commitment on 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, in addition to providing the organizations (NCIGA, NCRB & NCRF), mail and receptionist services. Challenges created by COVID-19 triggered a new way of doing business this year, requiring transition to remote work and the enactment of all federally related regulation changes. Preparation for return to work at the office includes purchasing of sneeze guards, PPE (personal protection equipment), sanitizers, disinfectant, and other recommended safeguards to offer a more secure environment due to the ongoing pandemic.

Associate Service Milestones — Years of Service

Years	# of Employees	% of Employees
0-9 Years	6	60%
10-19 Years	4	40%
20-29 Years	0	0%
30-39 Years	0	0%
40+ Years	0	0%
Total	10	100%

During the year, one new associate was added in the NCIGA.

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,
- certification in First Aid, CPR, and AED for a third of our workforce through the American Red Cross, and
- a partnership with Solace Bodywork for on-site massages.

On-site training this year consisted of weekly yoga classes and off-site training for 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

This will be a year to remember. The COVID-19 pandemic has changed the way the world does business. It not only changed how we do business, but where. As a result of the pandemic, the Association moved almost all staff and operations to a work-from-home model in mid-March 2020. All financial operations and services continued without

interruption, but many finance processes were re-engineered to be performed remotely in a near paperless environment, while maintaining the integrity of our internal controls.

Most of our accounts payable and accounts receivable processes were innovated, resulting in faster and more efficient interfaces with our vendors and member companies alike. Check issuance was moved offsite for the first time, tested at multiple locations, and has been significantly reduced as we leveraged this opportunity to migrate to ACH payments ahead of schedule with the vast majority of our vendors. The next Association assessment will be delivered electronically for the first time.

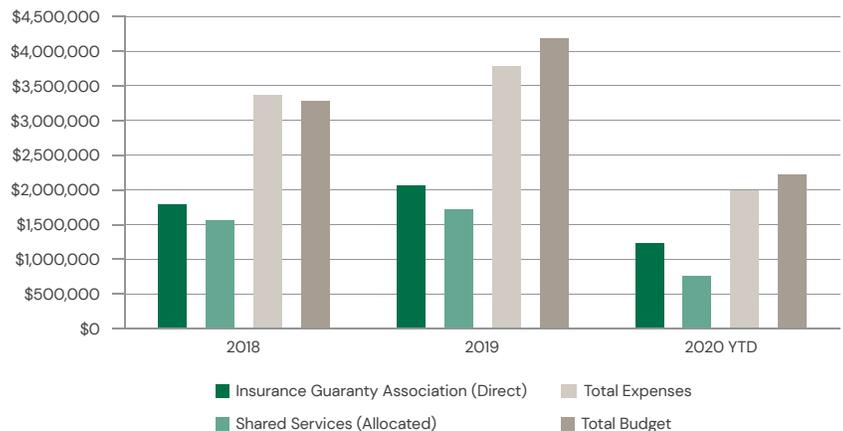
The financial position is summarized in the exhibits on page six, which reflect the comparative balance sheets and income statements for the latest two fiscal years ending August 31. The assets of the Association totaled approximately \$118.2 million on August 31, 2020—an increase of about 8% or \$9.2 million from a year ago. Investment income increased even more significantly, up about 37%, totaling about \$695 thousand over the prior year.

The 2020 reserves for claims and claims expenses decreased 4% compared to August 31, 2019, balances. At the time of this report, there has been only one new insolvency activated in the past 12 months, although there have been no claim payments issued to date.

The net claim and claim expense payments totaled approximately \$4.1 million over the past 12 months—a decrease of about 50% over the prior report year due to a reduction in claim payments and increase in recovery amounts. Income for the year was approximately \$27.2 million, a decrease of about \$4.5 million or 24% over 2019. Almost half of this income was from distributions from liquidators, notably \$9 million from the estate of Reliance and \$3 million from the estate of CAGC, and included additional funds from large deductible and net worth recoveries.

In December 2019, assessments for various insolvencies totaling \$12.3 million were partially offset by refunds of \$8.4 million from various older insolvencies. The most notable assessments were Guarantee Insurance and Lumbermen's Mutual Insurance at \$5 million each and \$1 million for Credit General. The most notable refunds were \$5 million for Reliance and \$2 million for Legion. The vast majority of these transactions were for the workers compensation line of business.

North Carolina Insurance Guaranty Association Administrative Expenses



Administrative Expenses	2018	2019	2020 YTD
Insurance Guaranty Association (Direct)	\$ 1,774,888	\$ 2,049,469	\$ 1,221,448
Shared Services (Allocated)	\$ 1,554,693	\$ 1,704,669	\$ 752,485
Total Expenses	\$ 3,336,221	\$ 3,760,146	\$ 1,977,436
Total Budget	\$ 3,253,831	\$ 4,149,556	\$ 2,204,609

There was significant activity in the investment portfolio in March 2020 as the markets reacted to the stay-at-home orders sweeping the country, and most callable bonds were called over a period of less than two weeks in early March 2020. However, the high-quality fixed-income nature of the portfolio has served the Association well, and the impact to investment income has been minimal, and the portfolio remained within compliance with the investment guidelines.

The Association's administrative expenses are comprised of the direct costs related to the specific activities of the Association as well as the allocated expenses of the departments whose services are shared along with the Rate Bureau and Reinsurance Facility. The table and chart included in this report reflect a summary of the direct and allocated expenses for the prior two years on a calendar basis and the first half of 2020. The Association finished 2019 about 9% under budget, although the 2019 budget was almost 25% higher than the 2018 budget to cover increases in claims activity and litigation. The budget for 2020 is slightly lower than for 2019, and through June 2020, the Association was about 10% under budget and currently projected to remain within budget for 2020 calendar year. Additional equipment purchases and other expenses related to transitioning our workforce to remote capabilities have largely been offset by the elimination of business travel and entertainment expenses, and the hiring for several budgeted positions has been also delayed by the pandemic.

The audit firm of Johnson Lambert once again performed the annual review of the Association's financial records, completed the audit before operations were moved remotely, and presented their report to the Audit Committee in March 2020. 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.

The business changes thrust upon us by the pandemic have further illustrated the need to update our core systems, and the Association, in conjunction with its sister organizations, has begun the initial steps to enhance the financial processing and reporting capabilities for both the accounting and assessment billing systems to promote greater efficiency, location independence, and better electronic interfaces with our stakeholders. This year has been one of both challenges and achievements, and we thank our staff, Board and committee members, and counsel for the support that makes it all possible.

NCIGA

North Carolina Insurance Guaranty Association
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