



2021 ANNUAL REPORT



NCIGA

NORTH CAROLINA INSURANCE GUARANTY ASSOCIATION



NC Insurance Guaranty Association

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Message from the Chairman



Allen Houck
Chairman

The North Carolina Insurance Guaranty Association had yet another full year of activity and accomplishments, though for 2020-2021, it was achieved while also negotiating the challenge of being a work-from-home operation due to Covid-19.

The Association activated for two new insolvencies during the year, Bedivere Insurance Company of Pennsylvania and American Capital Assurance Corporation (AmCap) of Florida. These appear to be small insolvencies with respect to covered North Carolina claims.

Our team continues to hold leadership roles in working with other state guaranty associations on our primary claims system.

Through our contributions, we have helped this group accomplish several aggressive goals, including 1) onboarding of two new states, 2) escrowing of system source code with Iron Mountain, 3) completion of deposit usability testing, 4) report enhancements, 5) investigation into backup database hosting options, and 6) ongoing management of the software developer and contractual issues.

Unfortunately, litigation is a seemingly unending constant in the world of guaranty funds, but we have an outstanding legal team combined with management expertise, and we do well in ensuring that our Association operates within the letter and intent of North Carolina’s general statutes. Most significantly, 2021 saw the conclusion of the five-year battle in *Booth v Hackney*, where in February 2021, the NC Supreme upheld the NC Court of Appeals decision on the bar date/statute of repose provisions of the Guaranty Act.

The Association spends a good deal of time continually evaluating the reserves on our case inventory due to the aging population of workers’ compensation claimants and the need to address future attendant care. The Association’s ongoing actions will preserve its claims against aging estates to ensure reserves are included within anticipated Notice of Determinations and subsequent distributions.

Despite the economic downturn created by COVID 19, the Association has been successful in maintaining collections from large deductible and net worth insureds.

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

- Net claims paid during the reporting year were \$3.8 million. Additionally, 143 claims were closed during the reporting year.
- The Association refunded \$11 million to member companies. The refunds consisted of \$8.55 million in workers’ compensation, \$400,000 in Automobile, and \$2 million for the All Other Account. \$15.3 million in assessments were made against member companies during the fiscal year, including \$2.85 million for the WC Mutual and Stock Trust accounts. Due to the insolvency of Bedivere, an additional \$500,000 was approved for All Other claims to be assessed at a future date based on management discretion.
- Staff and counsel continue aggressive pursuit of all avenues of recovery, with total recoveries of \$1.2 million collected through August 31, 2021.

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

Finally, and most importantly, I would like to thank our Managing Secretary Ray Evans for his 21 years of service to the Association, the North Carolina Reinsurance Facility, and the North Carolina Rate Bureau. Ray will be retiring in the near future, and his retirement is well earned. We were fortunate to have him at the reins well beyond when most folks would decide to hang things up. He absolutely qualifies as a “legend” in the North Carolina insurance world, and we will miss his wisdom and steady leadership, and of course, his friendship. Thank you, Ray.

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	Chris Wetzel
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
Vacancy	<i>Integon Indemnity formally resigned during the report year</i>

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	Chris Wetzel
Nationwide Mutual Ins. Co	Gregory Lonnecker

* Chairman
** Vice-chair

Report of NCIGA Counsel

In the past year, the Association's involvement with the longstanding litigation in *Booth v. Hackney* finally came to a conclusion. Following the North Carolina Supreme Court's denial of a petition for discretionary review in February 2021, the Opinion of the North Carolina Court of Appeals dated April 7, 2020, applying the plain language of the bar date and statute of repose provisions to industrial disease claims before the Industrial Commission, became the final decision in the case. After the *Booth v. Hackney* decision became final, the Association has been dismissed from a number of 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 in cases involving industrial disease claims. The final decision in the *Booth* case was a significant victory for the Association, and one that should have strong precedential value for other state insurance guaranty associations around the country.

In the past year, the Association has commenced a declaratory judgment action against the Centers for Medicare and Medicaid Services ("CMS") in the United States District Court for the Eastern District of North Carolina. *NCIGA v. Norris Cochran, in his official capacity as Acting Secretary of the United States Department of Health and Human Services, the United States Department of Health and Human Services, and the Centers for Medicare and Medicaid Services*, Case No. 5:20-CV-522-FL. The Association seeks a declaratory judgment that it is not obligated to reimburse CMS for Medicare secondary payments, and also is not obligated to comply with burdensome reporting obligations under Section 111 of the Medicare Secondary Payer statute. The Association filed the declaratory judgment action based upon (a) the decision of the Ninth Circuit Court of Appeals in *CIGA v. Azar*, 940 F.3d 1061 (9th Cir. 2019), which held that the California Insurance Guarantee Association ("CIGA") was not a "primary plan" under the Medicare Secondary Payer Act, and that CIGA had no obligation to reimburse the Government for conditional payments the Government makes to Medicare beneficiaries, and (b) confirmation that CIGA received from CMS following the *Azar* decision that CIGA was no longer required to meet Section 111 reporting requirements for payments made by CIGA. CMS disputes that the *Azar* decision applies to the Association and has filed a Motion to Dismiss the Association's declaratory judgment complaint on jurisdictional grounds, which the Association has opposed. The Association expects a decision

on the Motion to Dismiss from the district court judge in the coming months.

The Association achieved a victory before the North Carolina Industrial Commission in the case of *Maximino Vizcaino v. Watkins & Shepard Trucking, Inc./American Emerald Transportation Inc. & the North Carolina Insurance Guaranty Association*. In an Opinion and Award issued in January 2021, the Full Industrial Commission concluded (1) the Plaintiff did not possess a "covered claim" within the meaning of the Guaranty Act and thus the Association was not liable to the Plaintiff; (2) the Association was not bound by the pre-insolvency admissions of liability of the insolvent insurer, Guarantee Insurance Company, that were made in a Form 60; and (3) the trucking company that leased the Plaintiff's tractor, and its insurer, was liable to the Plaintiff as an employer under the Workers' Compensation Act. Both the employer and its insurer have appealed this decision to the North Carolina Court of Appeals, where the Association will argue that the decision of the Full Industrial Commission should be affirmed. The Association will also pursue reimbursement of claim amounts paid from the trucking company's insurer.

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 and concurrent 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. 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

In preparation for this report, I reviewed a number of previous years' work, and they have all, except for last year, been pretty much the same. This is a spoiler alert, but this year's will also be much the same. As I think about this though, it is really the good news. The Guaranty Association, as we often say, is the "firehouse" ready to respond to insolvencies to avoid financial loss to claimants and policyholders. So, stable is good.

This is written a little before the end of the year, but my expectation is we will successfully achieve our goals and objectives. Later in this report, there will be more specifics, but just

as in previous years, we have (1) managed our business and upgraded our abilities; (2) when adding an associate, hired really good people; (3) been good stewards of our resources; (4) made certain our claimants are properly taken care of; (4) participated in the larger guaranty fund community; and (5) managed litigation in many areas. What we do might not change much, but how we do it is always changing as the Association continues to adapt and be more effective in response to shifting demands.

An important part of the Guaranty Association's ability to have a stable framework for work and achieve our goal, is the participation of our associates and the strong relationships we establish with them. However, in response to the pandemic and the mostly work-from-home environment we have had for the last 18 months, we are seeing some pain points in our operations:

- Without social or off-line interactions, our strong relationships will be challenged over time. Digital technology is not a substitute for human connections.
- No spontaneous interactions with associates slow the process of change.
- Remote integration of new hires into our office culture is difficult.
- Zoom has been a life saver for communications, but Zoom fatigue is real.
- Ergonomically correct work stations are difficult at home.
- Promotions it is feared, will tend to shift to those physically present.

I have collected a large number of media reports of corporate responses to the pandemic and their projections on how operations will look in the future. My review of these publications has concluded no overall business direction exists other than much waffling. In fact, it seems many companies are more interested in expense savings from a smaller footprint and staff reduction, than improving operations.

So, without much insight from the larger business community and the "pain points" noted above, the future focus for the Association's operations is to begin re-populating the office in mid-September. All associates are creating an individual flex schedule with at least two work days in the office each week. However, as we are planning for repopulation, the number of COVID cases and hospitalizations are up, masks are being required by many schools, vaccinations are mandatory for many employers, and more mandates are expected. As a result, everyone was reminded at a recent town hall meeting that the safety of our associates is a primary concern, and current plans might not be final plans. Regardless the timing of events, work from home will be reduced, but still play an important role in our operations.

As I look ahead, I see many changes on the way including (1) an effort, maybe side tracked by a current bill being considered by the legislature, to restate liability insurance law; (2) the amount of space needed with a hybrid work schedule; (3) managing the growth in litigation; and (4) whether changes in the economy—particularly inflation, will increase insolvencies. However, we have the staff to meet these and other challenges in the future.

Now a final note. This will be my last Managing Secretary's report as I plan to retire March 31, 2022. The last 21 years have been bewildering, exciting, satisfying, and rewarding. This is partly because of the work we have done, but mostly because of the privilege of meeting, working with, learning from, and enjoying the company of so many wonderful people—sadly, way too many to recognize here. I do want to acknowledge Allen Houck, chair for many years, for his counsel and always being ready to help out.

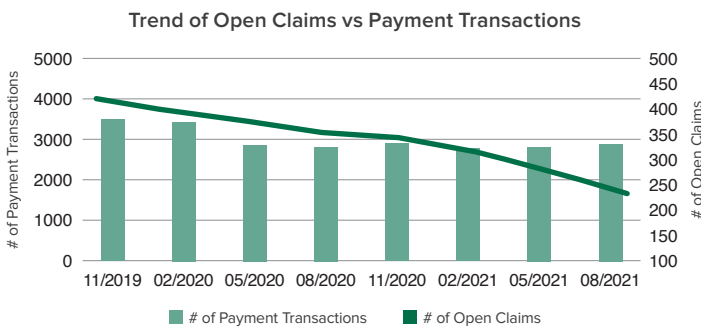
A handwritten signature in black ink that reads "Ray Evans". The signature is written in a cursive, flowing style.

Chief Operating Officer's Report



When completing the 2020 “COO” report, it was first with a profound sense of relief that I could state the Guaranty had continued to meet its statutorily mandated duty to protect North Carolina policyholders and claimants from severe financial losses and payment delays due to the insolvency of a member property and casualty insurance carrier. The fulfillment of our obligations in the face of a global pandemic, given the shutdown of physical operations for nearly five months, was from my perspective, an accomplishment. The overall feeling was that of elation, perhaps mild giddiness, like a runner’s high from endorphins after finishing a marathon. The problem was that this “marathon’s” ending was nowhere in sight nor its ultimate severity known. While the present and future are seemingly encouraging, and the preverbal light at the end of the tunnel is possibly in sight, as of fiscal 2021 year’s end, we continue to work remotely. Plans, however, are underway for a hybrid return as the organizations carefully monitor the everchanging environment created by COVID-19 and its variants.

Past operation reports have detailed management’s efforts to refine our infrastructure, overall operations, and work processes, in conjunction with improving efficiencies, continued timeliness, and reducing associated costs wherever possible. Prior actions and ongoing activities implemented throughout 2021 have allowed the Association to meet its core objectives as evidenced by issuance of over 11,500 payment transactions (checks & ACH), reflecting total gross payments of approximately \$5 million with recoveries of over \$1 million. Staff was also able to close over 140 claims, which interestingly, resulted in a minimal reduction of transaction numbers from the previous fiscal year.



The steady flow of payments coupled with notable reserve increases detailed on pages 7-8 of this report demonstrate the depth of severity of the Association’s claim inventory. Catastrophic workers’ compensation injury cases, along with the aging population of claimants, constitute the driving factors in reserve development, requiring careful evaluation of all medical

conditions including future attendant care. Staff and management have worked hard to assess open claims for reserve accuracy, not only to protect the Association’s claims against insolvent estates, but also to ensure proper funding for payments in the coming years.

The year brought about activation of two new insolvencies, Bedivere Insurance Company, a Pennsylvania-based carrier, and American Capital Assurance Corp., a Florida domestic, both presenting limited exposure to the NCIGA. Legal activity was also significant with the conclusion of *Booth v. Hackney*, a long-fought battle, where the bar date and statute of repose provisions of the Guaranty Act were upheld, leading to the closure of numerous asbestos-related claims pending at the North Carolina Industrial Commission. Additionally, a victory was achieved at the full commission level in a Guarantee Insurance Company case, where a ruling in the Association’s favor found no coverage under the Guaranty Act for injuries sustained by an independent operator, and determined the NCIGA was not bound to pre-insolvency Form 60 liability admissions. The decision has been appealed by the opposing parties to the North Carolina Court of Appeals which the NCIGA will continue to litigate in defense of its statutory positions. The Association still awaits a decision in the declaratory judgment action filed last year against “CMS” (Centers for Medicare & Medicaid Services), seeking confirmation that the NCIGA is not a primary payer plan for Medicare-eligible claimants based on *CIGA v. Azar*, and should have no further responsibility for “Section 111” compliance reporting. In the interim, conditional liens received on injury cases are now being paid under protest, while appealing payment responsibility through the administrative process established under the “MSP” (Medicare Secondary Payer) statute.

CMFTS (Claims Managing & Financial Tracking System), our claims operating software, continues to advance as the group of 10 participating state guaranty associations seek system refinements lead by its executive and technical committees of which the NCIGA are members. It has been a busy year, ranging from development of report enhancements to management of vendor challenges, where proposed environment changes threatened to limit contractually obligated direct access to data—stayed tuned for its resolution.

It is with the assistance of our IS department, that the Association was able to navigate many of the system-related issues, and give thanks for not only their guidance and support, but keeping us “up and running” over the past year. Their efforts allowed the organizations to maintain business operations remotely, accomplished in conjunction with actions taken by all Shared Services. The accounting department automated many of their processes and helped establish new procedures for check receipts. Mailroom staff took on check printing duties and the attachment of associated correspondence, and Human Resources stayed on top of changing COVID-19 federal regulations and the purchasing of safety equipment in anticipation of our return to the building—job well done everyone.

As the fiscal year concludes, I reflect on all that has been accomplished under continuing unusual circumstances, and I am proud of staff and management’s efforts to have achieved our objectives, despite the retirement of several NCIGA team members. We have ensured the “safety net” stayed in place under the leadership of our managing secretary, Ray Evans, who we would like to thank for not only his support and assistance during the current year, but for guiding the Guaranty through the last two decades, arguably the busiest since our creation. Ray recently announced his plans for a well-deserved retirement, and we wish him all the best as he prepares for that next golfing chapter or rather course—here’s to you boss.

Donna Kallianos
Chief Operating Officer

Balance Sheet

Year Ending	August 31, 2021 (Preliminary)	August 31, 2020 (Final)
Assets		
Cash (Checking Account)	\$ 6,220,000	\$ 2,657,894
Investments	114,000,000	116,003,672
Assessments Receivable	50,000	183,083
Other Assets	-	-
Total Assets	\$ 120,270,000	\$ 118,844,649
Liabilities & Fund Equity		
Accounts Payable	\$ 400	\$ 4,654
Claims Liability	86,750,000	81,559,185
Unearned Premium Liability	-	-
Claims Expense Liability	5,100,000	5,799,889
Other Liabilities	(1,689)	(1,689)
Total Liabilities	\$ 91,848,711	\$ 87,362,039
Fund Equity	28,421,289	31,482,610
Total Liabilities & Fund Equity	\$ 120,270,000	\$ 118,844,649

Income Statement

Year Ending	August 31, 2021 (Preliminary)	August 31, 2020 (Final)
Income		
Membership Fees	\$ 600	\$ 1,000
Interest Income	2,540,000	2,655,279
Assessment Income	15,350,000	12,300,000
Miscellaneous Income	1,400,000	12,381,346
Total Income	\$ 19,290,600	\$ 27,337,624
Expenses (Net)		
Refund to Commissioner/Liquidators	-	\$ 295,547
Refund to Member Insurers	\$ 11,000,000	8,350,000
Operating Expenses	3,800,000	3,695,905
Claims Paid (Net)	2,800,000	4,807,386
Claims Expenses	206,000	348,768
Premium Refunds	30,000	11,275
Total Expenses	\$ 17,836,000	\$ 17,508,882
Net Income/(Loss)	\$ 1,454,600	\$ 9,828,742

Claims Paid Detail

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
American Capital Assurance Corp.						
Atlantic Mutual Ins Co	\$96,957.33	\$8,906.11	\$105,863.44			
Bedivere Insurance Co	\$11,228.27	\$13,731.16	\$24,959.43			
CAGC Insurance Co	\$319,850.25	\$2,840.70	\$322,690.95			
CastlePoint National Insurance Co						
Casualty Reciprocal	\$10,769.46	\$2,472.83	\$13,242.29			
Centennial Ins Co	\$30,076.94	\$1,997.05	\$32,073.99			
Credit General Ins Co	\$287,229.35	\$1,070.57	\$288,299.92			
Employers Casualty Co	\$12,896.00	\$1,036.20	\$13,932.20			
Freestone Ins Co	\$85,425.90	\$5,858.70	\$91,284.60			
Fremont Indemnity Co	\$62,165.44	\$267.31	\$62,432.75			
Gateway Insurance Co					\$1,169.26	\$1,169.26
Guarantee Insurance Co	\$743,784.55	\$215,393.95	\$959,178.50			
Home Insurance Co	\$274,729.43	\$39,089.86	\$313,819.29			
Legion Insurance Co	\$159,855.34	\$5,749.75	\$165,605.09			
Lumberman Mutual Group	\$1,377,677.16	\$71,195.02	\$1,448,872.18			
Lumbermens' Underwriting Alliance	\$145,756.47	\$7,498.48	\$153,254.95			
Northwestern Nat'l Ins Co		\$9,170.75	\$9,170.75			
Park Ave P&C		\$9,909.41	\$9,909.41			
Reliance Insurance Co	\$719,115.97	\$42,271.06	\$761,387.03			
South Carolina Ins		\$2,341.45	\$2,341.45			
Villanova Insurance Co	\$20,197.34	\$2,916.12	\$23,113.46			
888 WC Mutual Trust	\$71,442.72	\$37,996.39	\$109,439.11			
999 WC Stock Trust	\$66,779.04	\$1,075.45	\$67,854.49			
Gross Total	\$4,495,936.96	\$482,788.32	\$4,978,725.28		\$1,169.26	\$1,169.26

Claims Reserved Detail

	WC				Auto			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
American Capital Assurance Corp.								
Atlantic Mutual Ins Co	\$3,167,858.76	\$105,814.76	\$3,273,673.52	4				
Bedivere Insurance Co	\$2,413,772.22	\$60,793.84	\$2,474,566.06	9				
CAGC Insurance Co	\$7,427,817.11	\$274,692.18	\$7,702,509.29	10				
CastlePoint National Insurance Co		\$5,000.00	\$5,000.00	1				
Casualty Reciprocal	\$765,506.04	\$25,991.05	\$791,497.09	2				
Centennial Ins Co	\$688,573.73	\$41,262.04	\$729,835.77	2				
Credit General Ins Co	\$4,732,382.96	\$233,779.25	\$4,966,162.21	4				
Employers Casualty Co	\$120,026.92	\$11,325.04	\$131,351.96	1				
Freestone Ins Co	\$1,834,159.50	\$199,437.90	\$2,033,597.40	4				
Fremont Indemnity Co	\$1,158,962.09	\$17,450.94	\$1,176,413.03	2				
Gateway Insurance Co								
Guarantee Insurance Co	\$4,289,297.69	\$988,549.93	\$5,277,847.62	45				
Home Insurance Co	\$7,744,350.03	\$261,675.10	\$8,006,025.13	10				
Legion Insurance Co	\$3,199,180.79	\$293,931.31	\$3,493,112.10	10				
Lumberman Mutual Group	\$25,670,431.86	\$909,056.08	\$26,579,487.94	33				
Lumbermens' Underwriting Alliance	\$1,123,905.88	\$7,736.50	\$1,131,642.38	3				
Northwestern Nat'l Ins Co	\$6,000.00	\$19,310.25	\$25,310.25	3				
Park Ave P&C		\$4,720.00	\$4,720.00	1				
Reliance Insurance Co	\$19,234,548.94	\$1,152,323.98	\$20,386,872.92	42				
South Carolina Ins	\$13,404.72	\$6,962.58	\$20,367.30	1				
Villanova Insurance Co	\$157,879.93	\$34,526.98	\$192,406.91	2				
888 WC Mutual Trust	\$2,760,042.70	\$427,320.61	\$3,187,363.31	15				
999 WC Stock Trust	\$2,017,011.76	\$66,290.70	\$2,083,302.46	3				
Total	\$88,525,113.63	\$5,147,951.02	\$93,673,064.65	207				

Claims Paid Detail

	All Other			Total
	Indemnity Paid	Expense Paid	Total Paid	
American Capital Assurance Corp.	\$20,000.00		\$20,000.00	\$20,000.00
Atlantic Mutual Ins Co				\$105,863.44
Bedivere Insurance Co				\$24,959.43
CAGC Insurance Co				\$322,690.95
CastlePoint National Insurance Co				
Casualty Reciprocal				\$13,242.29
Centennial Ins Co				\$32,073.99
Credit General Ins Co				\$288,299.92
Employers Casualty Co				\$13,932.20
Freestone Ins Co				\$91,284.60
Fremont Indemnity Co				\$62,432.75
Gateway Insurance Co				\$1,169.26
Guarantee Insurance Co				\$959,178.50
Home Insurance Co				\$313,819.29
Legion Insurance Co				\$165,605.09
Lumberman Mutual Group				\$1,448,872.18
Lumbermens' Underwriting Alliance				\$153,254.95
Northwestern Nat'l Ins Co				\$9,170.75
Park Ave P&C				\$9,909.41
Reliance Insurance Co				\$761,387.03
South Carolina Ins				\$2,341.45
Villanova Insurance Co				\$23,113.46
888 WC Mutual Trust				\$109,439.11
999 WC Stock Trust				\$67,854.49
Gross Total	\$20,000.00		\$20,000.00	\$4,999,894.54
				Recoveries
				\$(1,162,713.80)
				Net Claims Expenditure
				\$3,837,180.74

Claims Reserved Detail

	All Other				Total	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserves	Total Pending
American Capital Assurance Corp.						
Atlantic Mutual Ins Co					\$3,273,673.52	4
Bedivere Insurance Co	\$28,500.00	\$30,000.00	\$58,500.00	9	\$2,533,066.06	18
CAGC Insurance Co					\$7,702,509.29	10
CastlePoint National Insurance Co					\$5,000.00	1
Casualty Reciprocal					\$791,497.09	2
Centennial Ins Co					\$729,835.77	2
Credit General Ins Co					\$4,966,162.21	4
Employers Casualty Co					\$131,351.96	1
Freestone Ins Co					\$2,033,597.40	4
Fremont Indemnity Co					\$1,176,413.03	2
Gateway Insurance Co						
Guarantee Insurance Co					\$5,277,847.62	45
Home Insurance Co					\$8,006,025.13	10
Legion Insurance Co					\$3,493,112.10	10
Lumberman Mutual Group					\$26,579,487.94	33
Lumbermens' Underwriting Alliance					\$1,131,642.38	3
Northwestern Nat'l Ins Co					\$25,310.25	3
Park Ave P&C					\$4,720.00	1
Reliance Insurance Co					\$20,386,872.92	42
South Carolina Ins					\$20,367.30	1
Villanova Insurance Co					\$192,406.91	2
888 WC Mutual Trust					\$3,187,363.31	15
999 WC Stock Trust					\$2,083,302.46	3
Total	\$28,500.00	\$30,000.00	\$58,500.00	9	\$93,731,564.65	216

Shared Services

Information Services



Shelley Chandler
Chief Information Officer

Information Services (IS) is dedicated to leveraging technology to enhance business processes and fulfill the needs of our customers—the NCIGA, NCRB, and NCRF. In 2021, we find ourselves building on changes that were essential to the successes experienced in 2020 when the organizations quickly transitioned to a remote work environment due to the COVID-19 outbreak. As the organizations return to a new normal that includes a hybrid workplace model and adaptable work solutions, we are preparing our technical environment to support more long-term flexibility. Part of the transformation

will allow for location independence, enabling expansion of future options. Towards this end, the organizations are moving infrastructure offsite and switching to a cloud-based phone system to create more redundancy and flexibility.

Security continues to demand constant attention and resources to ensure integrity of our data, business operations, reputation, and financial stability. In 2021, ransomware attacks like those perpetrated on Colonial Pipeline and CNA Insurance Company made news headlines. Behind the scenes in the IT world, there was an increased number of “Zero-day vulnerabilities” that were exposed in systems used to keep infrastructure running. In both instances—constant vigilance, routine patching, and upgrading of systems play a large part in keeping systems safe. IS remains vigilant in evaluating vulnerabilities, constantly maintaining and upgrading systems to help protect our environment and data. We continue to conduct third party penetration testing of our networks and applications as these audits act as a second set of eyes to help identify potential weak spots, allowing for remediation and reduction in risk. One of our more practical and most important defense mechanisms used to mitigate security risks is employee training. Every month, associates receive security awareness assessments as a way to expand and reinforce their knowledge and understanding of these threats. This type of training has enabled associates to identify potential issues and respond proactively. The organizations’ security focus will continue to expand as infrastructure is transitioned to the cloud, where control over security becomes more complex.

Project work also contributes to our goal of promoting efficiency throughout the organizations and for external customers. In 2021, continued technical support and advice were provided by IS to the Association, assisting with ongoing issues experienced with their software vendor. Areas of concern ranged from security to proposed mid-contract removal of data access, affecting the NCIGA’s ability to perform system customization work. During the year, our software development team continued to write custom reports, helping the Association to enhance claim system functionality in addition to increasing productivity across their organization.

We look forward to the challenges that lie ahead as IS continues to provide solutions for the organizations that increase efficiency and help meet our members’ needs through technology.

Human Resources and Facility Services



Vicki Godbold
Chief Human Resources Officer

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.

The organizations are in their second year of adapting to a new way of doing business, triggered through challenges brought about by COVID-19. It required transition to remote work and keeping apprised of the constantly changing federal regulations, including their timely enactment. The organizations are prepared for repopulation of the office by having purchased sneeze guards, PPE (personal protective equipment), sanitizers, and disinfectant, as well as investing in significant improvements to our HVAC system to produce the highest quality air through the installation of UV-C lights. Moving forward, it will offer associates a safer environment as we continue to mitigate concerns created by the pandemic.

Associate Service Milestones—Years of Service

Years	# of Employees	% of Employees
0-9 Years	3	43%
10-19 Years	3	43%
20-29 Years	1	14%
30-39 Years	0	0%
40+ Years	0	0%
Total	7	100%

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

Our Wellness Program consists of

- a partnership with WakeMed Hospital,
- a partnership with YogaBlyss, and
- a partnership with the NC Prevention Partners.

On-site training this year consisted of weekly virtual yoga classes and virtual training for staff.

Community Service involvement by our associates this year included the United Way.

Finance



Edith Davis
Chief Financial Officer

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 \$120.3 million on August 31, 2021—a narrow increase of about 1% or \$1.4 million from a year ago.

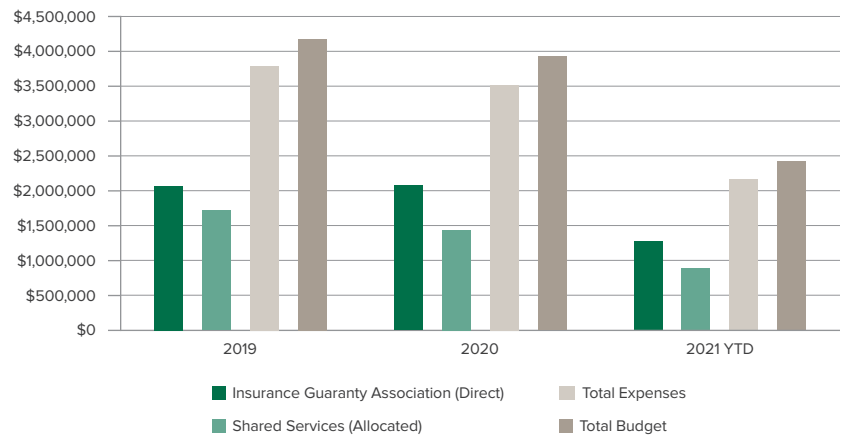
The 2021 reserves for claims and claims expenses increased 6%, totaling about \$5.5 million compared to August 31, 2020 balances. At the time of this report, there were two new insolvencies, Bedivere Insurance and American Capital Assurance Corporation (AmCap), activated in the past 12 months, although the only open claims for AmCap were for unearned premiums, and special deposits received from the Department of Insurance are sufficient to cover these.

The net claim and claim expense payments continue to decrease but were further impacted by about \$1 million for a restatement of a portion of a distribution received from the estate of CAGC in early 2020, originally reported as miscellaneous income. Net claims and claims expense totaled approximately \$4 million over the past 12 months excluding this adjustment—a decrease of about 23% over the prior report year—and continue to reflect reductions in claim payments and increased recovery amounts.

Income for the year was approximately \$20.3 million before the \$1 million adjustment, a decrease of about \$7 million or 26% over 2020. Investment income decreased about 4%, totaling about \$115 thousand less than the prior year, primarily impacted by a significant decrease in income for the year and the decline in interest rates. The majority of the income for this fiscal year was from assessments. In December 2020, assessments for various insolvencies totaling \$11 million were offset by refunds of \$11 million from various older insolvencies. The most notable assessments were Lumbermen's Mutual Insurance for \$5 million, Guarantee Insurance for \$3 million, and \$2.5 million for Home Insurance. The refunds were \$10 million for Reliance and \$1 million for Legion. The vast majority of these transactions were for the workers compensation line of business. Additionally, there were assessments for the Workers Comp Mutual Trust for \$1.3 million and the Workers Comp Stock Trust for \$1.55 million to maintain the statutorily required minimum reserves. In May 2021, \$1.5 million was assessed to fund Bedivere claims.

There was much less activity in the investment portfolio than in the prior year, and though interest rates remained low, the high-quality fixed-income nature of the portfolio remained stable, returns were only moderately impacted, and the portfolio remained within compliance with the investment guidelines.

North Carolina Insurance Guaranty Association Administrative Expenses



Administrative Expenses	2019	2020	2021 YTD
Insurance Guaranty Association (Direct)	\$ 2,049,469	\$ 2,070,915	\$ 1,273,072
Shared Services (Allocated)	\$ 1,704,669	\$ 1,434,720	\$ 888,541
Total Expenses	\$ 3,760,146	\$ 3,505,635	\$ 2,161,613
Total Budget	\$ 4,149,556	\$ 3,913,647	\$ 2,418,874

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 2021. The Association finished 2020 about 10% under budget, and that budget was almost 7% lower than the 2019 budget. As of June 2021, the Association was about 11% under budget, predominately driven by variances in IT expenses and open positions, and currently projected to remain within budget for the 2021 calendar year.

The audit firm of Johnson Lambert once again performed the annual review of the Association's financial records, conducted the entire audit remotely utilizing various online tools and resources, and presented their report to the Audit Committee in March 2021. 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. They further noted that some increased testing of internal controls had been performed for processes that had changed due to the pandemic.

Who could have imagined that the COVID-19 pandemic would last this long or be the influence that generated a seismic shift in the way that we work? We have quickly evolved from a very paper-based operation to a faster, more efficient paperless environment and seen the near elimination of paper invoices and checks to pay them. All Association assessments are now delivered electronically, and most of the bills we pay are received that way as well. This has improved nearly all phases of the accounting processes, from AP to month-end and reconciliations. As we make plans to return to the office, we will not be returning to those days of paper. Our business processes continue to evolve, and very good progress has been made towards the development of requirements for a new accounting system. This is a multi-year project and will benefit both the Association and its sister organizations with improved functionality and provide greater opportunities for location independence. Thank you to our Board and members for supporting these efforts. We continue to look for ways to improve our efficiency and customer service and welcome any feedback.

NCIGA

NORTH CAROLINA INSURANCE GUARANTY ASSOCIATION