



NCIGA

**NORTH CAROLINA  
INSURANCE GUARANTY ASSOCIATION**

2009 Annual Report



# Core Values

## **Commitment**

Faithfully and diligently fulfill the obligations of our Organizations as set forth in the statutes.

## **Integrity**

Perform each task as efficiently as possible with absolute honesty and integrity.

## **Respect**

Treat your fellow associates and those you serve on behalf of the Organizations with dignity and respect.

## **Talents**

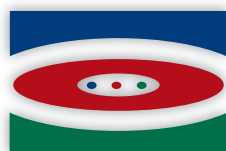
Continually strive to improve the Organizations through the use of every associate's talents and creativity.

## **Ownership**

Encourage participation and a sense of ownership from the members of our Organizations.

## **Consistency**

Demonstrate fairness and consistency among all associates and encourage personal development.



# Insurance Guaranty Association

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## General Organizational Information

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## Management Contacts

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## Message from the Chairman

For 38 years, the North Carolina Insurance Guaranty Association has served as the state-based safety net for the insurance-buying public in the event of the insolvency of a member company. During that period spanning four decades, the Association has met its statutorily created duties and obligations each and every time with a sense of purpose and professionalism that any industry would covet as its own. It has been my privilege to serve as Chairman for 18 of those years, and I assure you the task has been made easier with the help of many dedicated individuals to whom I owe a profound thank you, including my fellow Board Members, those serving on the Audit Subcommittee, Outside Counsel, and Guaranty Staff led by managing secretary Ray Evans.

The Association's Staff has continued to accept and meet the expectations placed on them by its Board. Those directives have been and remain to do the right thing, to act fairly and promptly in its dealings with all parties, to carry out aggressively the intent of the legislature as stated by the Guaranty Act, to continue to refine its processes, and to improve its efficiencies. Those charges are a tall order, but one that I can report with confidence that the Association takes to heart.

The economic landscape has certainly changed since we closed the Association's 2008 fiscal book last August 31. As Washington sought to shore up the country's sagging financial sector and looked at the insurance sector, they learned more about the Guaranty System, which has served as the consumers' protector for decades. While we look with hope towards the future, I assure you that the Association stands ready to carry out its duties.

Sincerely,  
Thomas M. Huels

*Thomas M. Huels*

## Board of Directors

The Plan of Operation provides that the Board of Directors consists of eight directors, comprised of seven elected directors, all of whom are member insurers, who shall serve three-year terms, or until their successors have been elected and qualified, and one non-voting director, who shall be a property and casualty insurance agent authorized to write insurance for a member company and who is appointed by the Commissioner of Insurance to serve for a three-year term at the pleasure of the Commissioner.

Members	Representative
Allstate Insurance Company	Nancy Lemke
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Company	Cheryl B. Watts
Nationwide Mutual Insurance Company	Kevin George
NC Farm Bureau Mutual Insurance Company	Allen Houck **
State Farm Mutual Auto Insurance Company	Tom Huels *
Travelers Indemnity Company	Ken Surian

Non-voting Member	
Property & Casualty Agent	Delaine Bradsher

## Subcommittee

The Audit Committee oversees the financial activities of the Association and formulates recommendations for presentation to the Board of Directors.

Members	Representative
Nationwide Mutual Insurance Company	Kevin George
NC Farm Bureau Mutual Insurance Company	Allen Houck *
Liberty Mutual Insurance Company	Cheryl B. Watts

\*chairman, \*\*secretary-treasurer

**Ray Evans**  
Managing Secretary, IGA



## Managing Secretary's Report

To a great extent, the past year has been similar to the previous several where the Association continues simultaneously to wind down existing insolvencies and prepare for the inevitable next one. The remainder of this annual report will provide details of how we improved the effectiveness of operations, worked with the Guaranty Funds community, and made progress on getting ready for the next one, noting that a recent S&P announcement said downgrades will continue to exceed upgrades.

Even though much of our work is similar to past years', there are some notable differences as we continue to broaden and sharpen our efforts to be more effective. An important one is that all the Organizations have adopted and begun implementing a strategic plan that emphasizes goals in the areas of costs, quality, and metrics. This strategy is not totally new for the Guaranty Association, but as approximately 25% of annual costs are from shared services, if shared services become more effective, there is the potential to reduce overall costs significantly.

What we are also trying to accomplish with a strategic plan, in addition to making progress on being better managers, is to be able to focus on what is important. With many external sources having input into our activities, we have to be able to focus on our plans and our responsibilities.

I am especially pleased to report the 2009 Legislative session concluded with three pieces of good news for the Guaranty Association. Most important, the premium tax offset remains in place. Second, the current bar date language in the statute is preserved. And, finally, a bill was passed and signed into law revising the current statute to include a provision in that the Guaranty Association is able to do work for other statute-created entities upon the approval of the Board and Commissioner.

As always, any success this past year is due to the work of many besides the associates in the office, including our counsel, keeping us out of trouble and ably defending us; the Chair and members of the Board for providing good direction; and a host of others that have always been willing to spend time to help us. Thanks to you all.

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

Thanks to our associates for embracing change and adapting to a different environment and to the Board and Committees for their leadership and support.



**R. Mike Newton**  
Director, IGA

# Management Report & Analysis

Our Mission is to fulfill statutorily created duties, which are to provide a mechanism for the payment of covered claims as defined by the Guaranty Act, to avoid excessive delay in those payments, to avoid financial loss to claimants or policyholders because of the insolvency of an insurer, to assist in the detection and prevention of insurer insolvencies, and to provide an association to assess the cost of such protection among insurers. The manner in which our associates carry out those duties will define our excellence as an organization.

## Reflections on legislation forming the Association and defining its role and guidance

### ARTICLE 48. – Post-assessment Insurance Guaranty Association.

- **58-48-5. Purpose of Article.**

States the purpose of Article 48 and is incorporated into our Mission Statement

- **58-48-25. Creation of the Association.**

Creates the Guaranty Association

- **58-48-30. Board of directors.**

Establishes a Board through which the Association exercises its powers

- **58-48-35. Powers and duties of the Association.**

Sets forth powers and duties

- **58-48-40. Plan of operation.**

Establishes a plan to assure the fair, reasonable, and equitable administration of the Association

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## Observations

“Strategic Planning” continues to be one of the top buzz words in the business world. Sounds like a sound business endeavor – how do we do it or where does one go to get one of these strategic plans? Is there a template or one-size-fits-all solution? **A working definition is an organization’s process of defining its strategy or direction and making decisions on allocating its resources to pursue this strategy, including its capital and people.** Wikipedia states that all strategic planning deals with at least one of three key questions: (1) what do we do, (2) for whom do we do it, and (3) how do we excel (how can we beat or avoid competition)?

This planning requires some organizational soul searching as you first need to evaluate truthfully your organization’s current situation. Then you have to define goals and objectives to visualize where the organization ideally should be positioned. At that point, you need to determine the course of action needed to close the gap between the current position and the ideal position.

# Operations Report

The course of action needed to position the organization at its ideal state is your organization's "strategic plan."

The National Conference of Insurance Guaranty Funds (NCIGF) board of directors launched a national Strategic Planning Committee (SPC) initiative in January 2006. The board, recognizing that recent insurance insolvencies were markedly different from the insolvencies that had driven the creation of guaranty funds in the 1970s, asked the committee to conduct an objective, systematic, and thorough review and assessment of the state-based property and casualty guaranty fund system (GFS) and its trade organization, the NCIGF.

With this current assessment of the insolvency system in hand, the board created seven working groups charged with developing strategies for improvement—including suggested best practices—and reporting their recommendations back to the SPC. The recommendations are to provide a roadmap for moving forward the NCIGF and the GFS into an efficient and effective system by identifying substantive goals, strategic vision, and tactical support for achieving the identified goals and vision. Again, "where are we now, where do we desire to be, and how do we close the gap?"

On a state level, as detailed in the managing secretary's report, the IGA, along with its sister organizations, the Reinsurance Facility and Rate Bureau, has undertaken the creation of a cross-organizational strategic plan as we share various resources, including management. While some goals involve all three organizations, some of the goals are specific to the IGA due to its unique mission statement and state statute.

The IGA has established eight tasks for its initiative list:

1. Metric review for a management dashboard
2. Develop the Center of Medicare and Medicaid Services (CMS) program
3. Develop a document-retention/destruction policy
4. Conduct an audit of the ISU software and its vendor
5. Complete process documentation
6. Develop a matrix for cross training within the IGA
7. Develop rapid-response team for new insolvencies
8. Explore options to develop external organizations

These eight tasks are designed to allow us to "close the gap" and therefore constitute part of our strategic plan.

During the report year, the Association received 39 new claim files and closed 109 files, leaving 376 files open as of August 31, 2009. The Association issued 17,817 checks during the process of paying out \$11,226,666 in indemnity claims, unearned premium claims, and allocated claim expenses during the report year, which netted to \$9,949,550 after consideration of recoveries.

Through the efforts of Staff and Legal Counsel we continued to pursue aggressively net worth, subrogation, and large deductible recoveries utilizing the Guaranty Act's various provisions, recouping over \$1,580,129, a 14 percent recovery rate of funds spent during the report year.

Workers' Compensation claims continued to be the focus of claims adjustment activity, with 99.5 percent of the indemnity and claims expense net payments paid (\$9,901,092) during the report year and 97 percent of current reserves (\$57,113,488) as of the report period's ending being related workers' compensation.

Casualty claim files numbered 29 open and were reserved for \$1,634,735. These cases involve commercial exposures, with most being subject to litigation and posing interesting questions under the policy coverage and the provisions of the Guaranty Act.

With no new insolvencies affecting the Association this year and the maturing of the record-breaking insolvencies of Reliance Insurance Company and Legion Insurance Company, the open claim count of 376 represents our smallest case load in seven years. Mindful of associate-to-work-load ratios, we reduced staff by one associate during the year and currently have one part-time associate handling all casualty claims and net worth recoveries.

We continue to carry out the Board's directive of handling claims in a fair and prompt manner, providing the promised safety net to our State's insurance-buying public while refining our processes to ensure that we are operating efficiently.

**R. Mike Newton**  
Director, IGA

*R. Mike Newton*

## Claims Paid Detail

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
Casualty Reciprocal	\$775,612	\$84,965	\$860,577			
Credit General	\$191,634	\$15,925	\$207,559			
Employers Casualty	\$34,779	\$8,484	\$43,263			
Fremont Indemnity Co	\$42,055	\$2,689	\$44,744			
Home Insurance	\$307,639	\$44,456	\$352,094			
Legion Insurance Co	\$1,802,217	\$164,603	\$1,966,820	\$10,000	-\$176	\$9,824
PHICO Insurance	\$48,877	\$12,137	\$61,013			
Reliance Insurance Co	\$4,207,286	\$343,938	\$4,551,224	\$18,798	\$8,429	\$27,227
ROA Insurance Co	\$132,697	\$10,968	\$143,665			
Shelby Insurance Co	\$91,923	\$16,124	\$108,047			
South Carolina Ins Co	\$148,399	\$67,925	\$216,324		\$11,004	\$11,004
Villanova Insurance Co	\$248,394	\$47,963	\$296,357			
888 Mutual Trust	\$899,814	\$82,796	\$982,610			
999 Stock Trust	\$63,538	\$3,257	\$66,795			
<b>Total</b>	<b>\$8,994,863</b>	<b>\$906,230</b>	<b>\$9,901,092</b>	<b>\$28,798</b>	<b>\$19,257</b>	<b>\$48,055</b>

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## Claims Reserved Detail

	WC				Auto			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
Casualty Reciprocal	\$2,016,858	\$105,081	\$2,121,938	19				
Credit General	\$2,333,316	\$49,763	\$2,383,079	4				
Employers Casualty	\$323,289	\$23,492	\$346,781	5				
Fremont Indemnity Co	\$1,345,676	\$19,663	\$1,365,339	2				
Home Insurance	\$3,044,196	\$183,051	\$3,227,246	48				
Legion Insurance Co	\$7,830,947	\$325,485	\$8,156,432	44	\$10,000	\$27,156	\$37,156	2
PHICO Insurance	\$335,913	\$33,332	\$369,245	6				
Reliance Insurance Co	\$20,706,694	\$799,357	\$21,506,051	100	\$521,920	\$8,632	\$530,552	3
ROA Insurance Co	\$3,765,494	\$184,323	\$3,949,817	18				
Shelby Insurance Co	\$764,442	\$55,701	\$820,143	7	\$29,000	\$7,275	\$36,275	2
South Carolina Ins	\$1,416,076	\$590,086	\$2,006,162	5	\$63,918	\$2,223	\$66,141	3
Villanova Insurance Co	\$673,847	\$48,106	\$721,953	9				
888 Mutual Trust	\$8,899,360	\$383,826	\$9,283,185	77				
999 Stock Trust	\$825,535	\$30,581	\$856,116	3				
<b>Total</b>	<b>\$54,281,641</b>	<b>\$2,831,848</b>	<b>\$57,113,488</b>	<b>347</b>	<b>\$624,839</b>	<b>\$45,285</b>	<b>\$670,124</b>	<b>10</b>



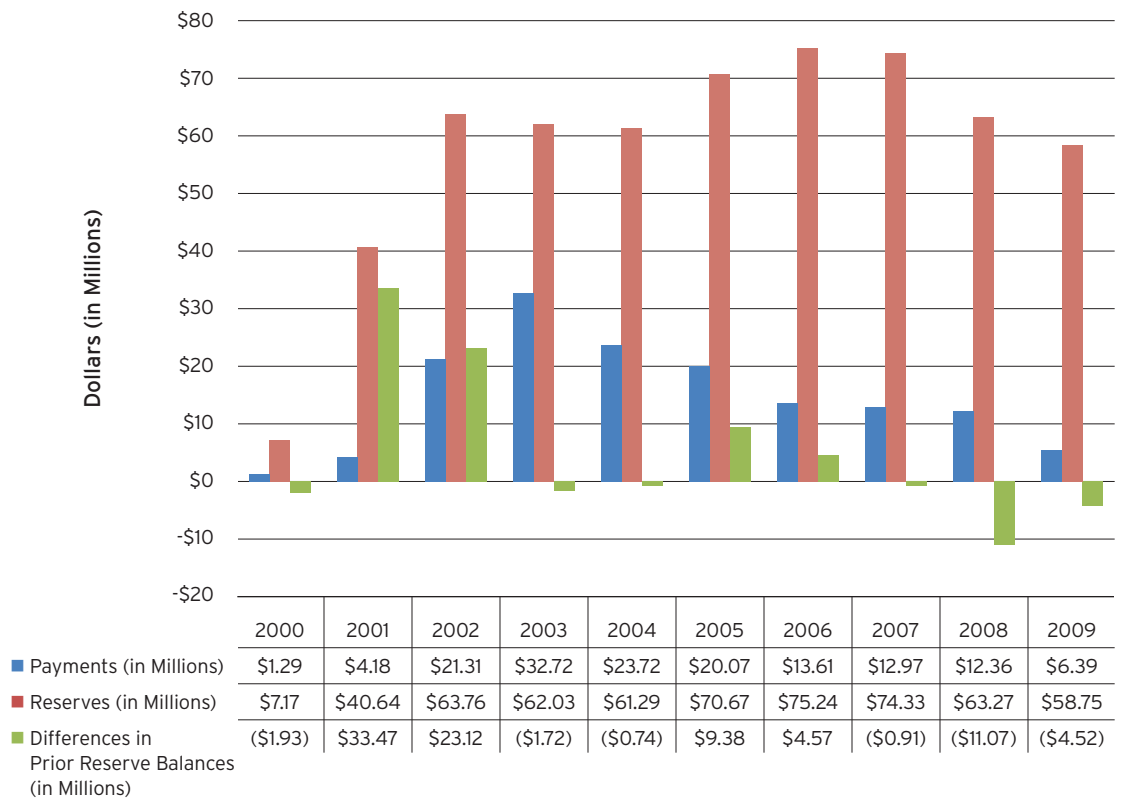
	<b>All Other</b>			<b>Total</b>
	Indemnity Paid	Expense Paid	Total Paid	
Casualty Reciprocal				\$860,577
Credit General				\$207,559
Employers Casualty				\$43,263
Fremont Indemnity Co				\$44,744
Home Insurance				\$352,094
Legion Insurance Co				\$1,976,644
PHICO Insurance	-\$36,606	-\$2,725	-\$39,331	\$21,682
Reliance Insurance Co				\$4,578,451
ROA Insurance Co				\$143,665
Shelby Insurance Co	\$5,000	\$5,013	\$10,013	\$118,060
South Carolina Ins Co	\$20,000	\$7,973	\$27,973	\$255,301
Villanova Insurance Co				\$296,357
888 Mutual Trust				\$982,610
999 Stock Trust				\$66,795
<b>Total</b>	<b>-\$11,606</b>	<b>\$10,261</b>	<b>-\$1,345</b>	<b>\$9,947,802</b>

Unearned Premium	\$1,747
Net Total	\$9,949,550
Recoveries	\$1,277,116
<b>Gross Total Expenditure</b>	<b>\$11,226,666</b>

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	<b>All Other</b>				<b>Total</b>	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserves	Total Pending
Casualty Reciprocal					\$2,121,938	19
Credit General					\$2,383,079	4
Employers Casualty					\$346,781	5
Fremont Indemnity Co					\$1,365,339	2
Home Insurance	\$201	\$0	\$201	3	\$3,227,447	51
Legion Insurance Co	\$100,000	\$7,963	\$107,963	1	\$8,301,551	47
PHICO Insurance	\$600,000	\$200,000	\$800,000	2	\$1,169,245	8
Reliance Insurance Co	\$678	\$22,634	\$23,312	8	\$22,059,914	111
ROA Insurance Co					\$3,949,817	18
Shelby Insurance Co	\$6,100	\$26,458	\$32,558	4	\$888,976	13
South Carolina Ins	\$0	\$577	\$577	1	\$2,072,880	9
Villanova Insurance Co					\$721,953	9
888 Mutual Trust					\$9,283,185	77
999 Stock Trust					\$856,116	3
<b>Total</b>	<b>\$706,979</b>	<b>\$257,632</b>	<b>\$964,611</b>	<b>19</b>	<b>\$58,748,222</b>	<b>376</b>

# NCIGA Analysis Chart



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This chart, covering the years of 2000 through 2008 and the first eight months of 2009, reflects net payments (indemnity, claim expenses, and unearned premium claims), reserves for anticipated future payments, and the change in those reserves from year to year. Ideally one would expect liabilities (reserves) to decrease proportionally with payments made. In actuality, additional insolvencies and resulting claims, worsening claim case development, and adverse litigation decisions can create situations where reserves increase even with substantial payment outlay.

2000 showed a trend that one would hope to see – payments reflect a decrease in the reserves.

2001 showed a spike in reserves due to the insolvencies of Credit General and Reliance Ins. Co.

2002 showed a continued spike due to the insolvencies of PHICO Ins., Legion Ins., and Villanova Ins.

2003 and 2004 recorded the insolvencies of Home Ins., Reciprocal of America, Fremont Ins., Commercial Casualty Ins. Co., and Casualty Reciprocal Exchange Co. Those insolvencies, along with Reliance's and Legion's continuing presence, led to a modest reserve reduction during record payment activity.

2005 and 2006 recorded the insolvencies of South Carolina Ins. Co. and Shelby Ins. Co., which coupled with two adverse litigation decisions, resulted in reserve increases. The good news was a significant drop in payments during 2006.

2007 recorded no new insolvency and a return to overall reserve reduction.

2008 involved no insolvency and a significant victory, with reserve reduction nearly equaling payments.

The first eight months of 2009 have continued the positive reserve reduction.

## NCIGA Management Staff



**William Delbridge**  
Manager, Claims



**Rowena Ball**  
Supervisor,  
Workers Compensation  
Claims



**Donna Kallianos**  
Supervisor, Casualty  
Claims

## Organization Shared Resources



**Vicki Godbold**  
Director,  
Human Resources and  
Administrative Services



**David Sink**  
Director, Finance



**Shelley Chandler**  
Director,  
Information Services

## 30+ Years Associates



**Faye Helms, Dave Sink, Lois Murphy**



# Report of NCIGA Counsel

## 1. Litigation Over Guaranty Act's Bar Date Provision

The most significant legal issue for the Association that is currently in litigation remains the enforcement of the Guaranty Act's "bar date" provision in industrial disease claims that are filed before the North Carolina Industrial Commission. As reported in last year's Annual Report, the Association has litigated before the Industrial Commission the issue of whether industrial disease claims (primarily asbestos claims) first filed with the Association after the bar date for filing claims against the insolvent insurer constitute "covered claims." In a closely watched case, the Full Industrial Commission on August 1, 2008, affirmed a decision of a Deputy Commissioner and unanimously concluded that such industrial disease claims were not "covered claims" because of the application of the Guaranty Act's "bar date" provision. An appeal of this decision to the North Carolina Court of Appeals was dismissed by the plaintiff. As a result, this 2008 decision by the Full Industrial Commission is applicable to all other "bar date" cases being defended by the Association. The Association will continue to assert vigorously the "bar date" provision of the Guaranty Act in all proceedings before the Industrial Commission where it is applicable.

## 2. Domiciliary Receivership Proceedings

The Association continues to monitor legal issues arising from existing insolvent insurer estates. In the domiciliary receivership proceedings in Pennsylvania for Reliance Insurance Company and Legion Insurance Company, the Association continues to work with the domiciliary receivers on expense and reinsurance claim audits, large deductible recoveries, and early access payments. The Association is also involved in efforts to finalize claims against and close the estates of American Mutual Liability Insurance Company in Massachusetts and PHICO Insurance Company in Pennsylvania.

## 3. Net Worth Reimbursement

The Association continued its efforts to collect reimbursement of "covered claim" payments from high-net-worth insureds. In a case involving one such high-net-worth insured, Guilford Technical Community College has denied any obligation to reimburse the Association on the grounds of sovereign immunity. An appeal in this case is pending before the North Carolina Supreme Court. The Association anticipates a decision sometime in the next report year.

**David Sink**  
Director, Finance

*David Sink*



## Finance Director's Report

The North Carolina Insurance Guaranty Association remained in financially sound position during the 12 months ending August 31, 2009. Buoyed by the Board's direction to provide more fully for the obligations of the existing insolvencies through assessments in the latter part of 2008, the Association ended the report year with a cash and investment balance of \$86 million—up approximately 11.1% from the \$77.4 million a year ago. The increase in the cash position was also attributable to the distributions received from several liquidators of insolvent companies, including \$2.9 million and \$1.3 million from the estates of Legion and Reliance, respectively. While the overall yield on the Association's investments declined over the past year as interest rates fell, investment income totaled \$3,203,008 for the 12 months

ending August 31, 2009—exceeding the \$3 million mark for the fourth consecutive year.

During the past year, our net claim and claim expense payments totaled \$9.9 million, which represents a decrease of about 20.9% from the prior year. Administrative expenses decreased about 7.3%—or approximately \$157,000—as the existing insolvencies continued to wane and the number of pending claims continued to decline. Accordingly, the liabilities associated with the Association's claim and expense obligations decreased 9.6% over the last 12 months from \$65 million to approximately \$58.8 million.

The Board of Directors authorized assessments during the report year for the insolvencies of Employers Casualty Company, Legion Insurance

Company, Reliance Insurance Company, and Shelby Insurance Company. The aforementioned assessments totaled \$11,625,000, and all pertained to the workers' compensation account as defined in the statutes. As noted above, we believe these assessments positioned the Association to meet more fully the obligations of the respective insolvencies, and based on our projections at this time, assessments during the next 12 months should be minimal.

We are grateful for the guidance and support we continue to receive from our Board of Directors, committees, and member companies and believe the financial condition of the North Carolina Insurance Guaranty Association remains strong as we strive to meet our statutory responsibilities and obligations.

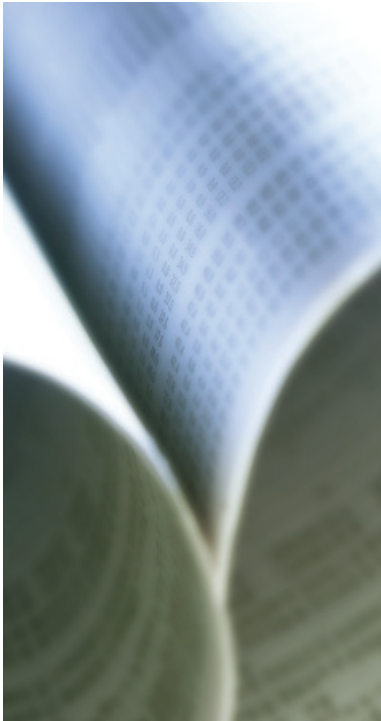
# Insurance Guaranty Association

## Balance Sheet Year Ending

	August 31, 2009	August 31, 2008
<b>Assets</b>		
Cash (Checking Account)	\$2,938,998	\$637,801
Investments	83,033,659	76,759,027
Assessments Receivable	76,667	161,018
Other Assets	-	-
<b>Total Assets</b>	<b>\$86,049,324</b>	<b>\$77,557,846</b>
<b>Liabilities &amp; Fund Equity</b>		
Accounts Payable	\$-	\$-
Claims Liability	55,613,459	61,608,724
Unearned Premium Liability	-	-
Claims Expense Liability	3,134,765	3,375,505
Outstanding Check Liability	-	-
Other Liabilities	623	1,361
<b>Total Liabilities</b>	<b>\$58,748,847</b>	<b>\$64,985,590</b>
Fund Equity	27,300,477	12,572,256
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$86,049,324</b>	<b>\$77,557,846</b>

## Income Statement Year Ending

	August 31, 2009	August 31, 2008
<b>Income</b>		
Membership Fees	\$1,400	\$1,250
Interest Income	3,203,008	3,774,966
Assessments Income	11,625,000	3,246,778
Miscellaneous Income	5,595,722	1,976,644
<b>Total Income</b>	<b>\$20,425,130</b>	<b>\$8,999,638</b>
<b>Expenses</b>		
Refund to Commissioner/Liquidators	\$-	\$978,054
Refund to Member Insurers	-	-
Operating Expenses	1,997,683	2,154,727
Claims Paid (Net)	8,978,987	11,003,836
Claim Expenses	954,497	1,496,654
Premium Refunds	1,747	55,685
<b>Total Expenses</b>	<b>\$11,932,914</b>	<b>\$15,688,956</b>
<b>Net Income (Loss)</b>	<b>\$8,492,216</b>	<b>\$(6,689,318)</b>





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## Report of Independent Auditors

The Board of Directors and Members  
North Carolina Insurance Guaranty Association

We have audited the accompanying statements of cash receipts and disbursements of the North Carolina Insurance Guaranty Association (the Association) for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the statements of cash receipts and disbursements present a summary of cash activity and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the North Carolina Insurance Guaranty Association for the years ended December 31, 2008 and 2007, and its cash and investment balances at December 31, 2008 and 2007.

*Ernst & Young LLP*

May 2, 2009



North Carolina Insurance Guaranty Association  
5401 Six Forks Road Raleigh, NC 27609 [www.ncrb.org](http://www.ncrb.org)

