



FLORIDA WORKERS' COMPENSATION
INSURANCE GUARANTY ASSOCIATION

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2017 ANNUAL REPORT



FLORIDA WORKERS' COMPENSATION
INSURANCE GUARANTY ASSOCIATION

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[1] Create a not-for-profit Florida Workers' Compensation Insurance Guaranty Association, Incorporated, to provide a mechanism for the payment of covered claims under chapter 440, to avoid excessive delay in payment and to avoid financial loss to claimants because of the insolvency of a member insurer.

[2] Assist in the detection and prevention of insurer insolvencies.

[3] Allocate the cost of such protection among the insurers.

[4] Provide for the prompt payment by the corporation of workers' compensation claims incurred by insolvent insurers.

FLORIDA STATUTE 631.902

PURPOSE



OVERVIEW & HISTORY

2017 OVERVIEW

Lawmakers and the insurance industry created property and casualty guaranty funds over 45 years ago to address a public policy imperative: Insurance contracts should be honored even if an insurance company fails. While Florida Statute 631.902 provides the “purpose” for the legislation creating the Florida Workers’ Compensation Insurance Guaranty Association (“FWCIGA” or “Association”), the goal of the organization is to protect injured workers.

In 2017 there were two insurance company liquidations that impacted the FWCIGA. In April, the California domiciled CastlePoint National was liquidated and transferred over 200 claims to FWCIGA. Then in November, the Florida domiciled Guarantee Insurance Company was liquidated and to date has resulted in the transfer of over 1,400 claims. After several years of decreased insolvency activity, both of these liquidations impacted thousands of injured workers across the country. CastlePoint National and Guarantee Insurance Company’s open claim counts nationwide were both approximately 6,000 and while CastlePoint National had no policies in effect at the date of liquidation, Guarantee Insurance Company’s liquidation impacted over 8,000 policyholders. New liquidations always have

challenges, but working together with the California and Florida liquidation offices and the National Conference of Insurance Guaranty Funds, our efforts have focused on making sure Florida claimants and policyholders have the information they need about the liquidation process and that injured workers continue to receive their workers’ compensation benefits timely.

As activity levels are difficult to predict and insolvencies can occur with little notice, an important role of the Association is to be prepared to meet a variety of challenges. The Board of Directors and staff believe we have created an organization to do just that. We continue to work to protect claimants and policyholders by stepping in to pay claims of insolvent insurers.

Over the next several pages, we have provided a summary of the information needed to understand why the guaranty fund was created, how it operates and financial status. Additional information can be found on our website: www.fwciga.org and on the Florida Division of Rehabilitation and Liquidation’s website: www.myfloridacfo.com/division/receiver/ as well as in the Florida Statutes beginning at 631.901.

WHAT IS A GUARANTY ASSOCIATION?

Insurance guaranty associations provide protection to insurance policyholders and beneficiaries of policies (in workers' compensation policies this would be the injured worker) issued by an insurance company that has become insolvent and is no longer able to meet its obligations. All states, the District of Columbia, and Puerto Rico have insurance guaranty associations.

If an insurance company has insufficient funds to cover all of their obligations, state regulators will ask the state court to issue an order of liquidation appointing a receiver to identify creditors, collect and distribute available assets in accordance with statutory priorities and then close the receivership. The state guaranty associations are responsible for paying the policyholder claims and reporting those payments to the Receiver.

Guaranty associations ease the burden on policyholders and claimants of the insolvent insurer by immediately stepping in to assume responsibility for most policy claims following liquidation. The coverage guaranty associations provide is fixed by the policy or state law; they do not offer a replacement policy. If there were no insurance guaranty associations, policyholders and claimants would have to wait until the

receivership closed before obtaining any compensation from their former insurance carrier.

The FWCIGA is not responsible for all of the liabilities of an insolvent insurer. Florida Statutes govern the obligations including a \$50,000 limit for the return of unearned premium (FS 631.913(1)(c)) and a \$300,000 limit for claims under the employer liability coverage of the workers' compensation policy (FS 631.904(2)). Liabilities arising out of contracts for services between the insolvent company and a vendor pre-liquidation are handled by the Receiver and are not the responsibility of FWCIGA. FWCIGA is also not liable for any penalties or interest (FS 631.913(2)).

Most injured workers have very little input into the purchase of their employer's workers' compensation policy; yet they are the ones who depend on this insurance safety net to continue to provide their care and benefits. The Merriam-Webster dictionary defines "safety net" as "something that helps someone who is in a difficult situation". The Florida Workers' Compensation Insurance Guaranty Association continues to strive to do just that - help injured workers by stepping in to pay claims when their employer's workers' compensation insurance company has become insolvent.





The purpose of the Florida Workers' Compensation Insurance Guaranty Association, Inc. (FWCIGA) is to implement Florida Statute Sections 631.901 - 631.932 and to provide a mechanism for the payment of covered claims, to avoid excessive delay in payment and to avoid financial loss to claimants in the event of the insolvency of a member insurer.

HISTORY & BACKGROUND OF THE FWCIGA

The Florida Insurance Guaranty Association (FIGA) was created by the Florida legislature in 1970 and handled the workers' compensation claims of Florida residents from insolvent insurers until late 1997. The FWCIGA was formed in 1997 as a result of the merger of the former Florida Self-Insurance Fund Guaranty Association (FSIFGA) and the workers' compensation insurance account of the FIGA. Upon the effective date of the merger, the predecessor organizations ceased to exist and were succeeded by FWCIGA.

This consumer safety net is governed by Part V of Chapter 631, Florida Statutes, as well as a Plan of Operation established by its Board of Directors. FWCIGA provides for the payment of covered claims for insurance companies or group self-insurance funds authorized under Section 624.4621, Florida Statutes, that are declared insolvent and unable to continue making payments to injured workers. All insurance companies and group self-insurance funds authorized under Section 624.4621, Florida Statutes, are members of the FWCIGA as a condition of their authority to offer workers' compensation coverage in the state of Florida. Individual self-insured entities are not entitled to coverage from the FWCIGA. Guaranty fund coverage for individual self-insured entities is governed by the Florida Self-Insurers Guaranty Association as set forth in Section 440.385, Florida Statutes.

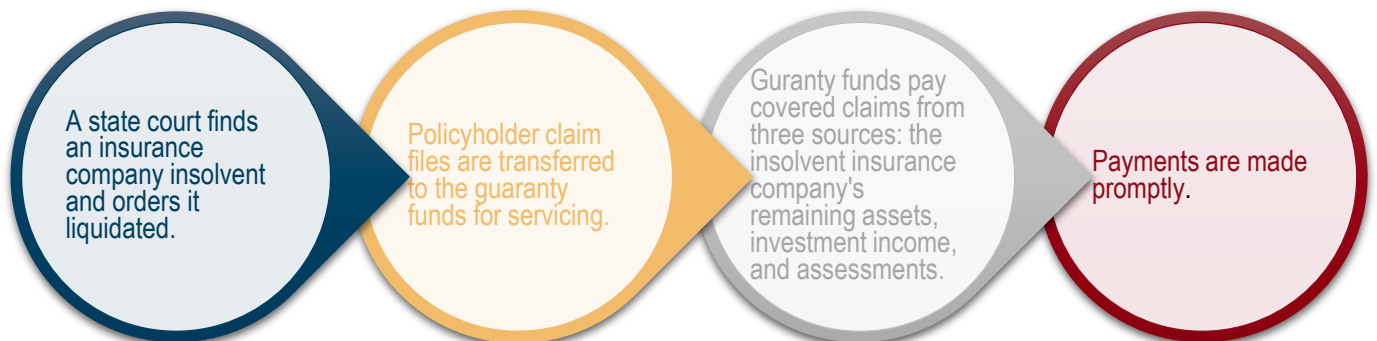
In 2004 the American Guaranty Fund Group (AGFG) was created to function as the management company for the FIGA and the FWCIGA. Both of these entities were created by the legislature but provide services to different types of insurance policies: FIGA covers automobile insurance, property insurance and other liability lines of insurance; FWCIGA covers workers' compensation and employer's liability insurance. Initially AGFG was formed to facilitate the consolidation of executive management. In 2008 all employees of both organizations were consolidated in AGFG resulting in cost savings for each of the organizations and consistency in processes for Florida consumers. While the employees were consolidated, each organization retains its individual statutorily authorized Board of Directors. Additional information about American Guaranty Fund Group can be found on its website: www.agfgroup.org

THE LIQUIDATION PROCESS

There is no “typical” insurance insolvency, but in general the liquidation process proceeds as follows:

- The Receiver (in Florida this is the Florida Department of Financial Services, Division of Rehabilitation and Liquidation) gathers claims file data and makes other logistical preparations including filing a petition in the state court for a determination of insolvency.
- The state court issues an Order of Liquidation and specifically appoints a Receiver and details the actions and authority allowed of the Receiver.
- The Order of Liquidation will provide a date for which all insurance policies will be cancelled.
- The Receiver transfers claim files and/or claims data to the individual state guaranty associations. These claims are typically transferred to the state where the claimant resides at the date of the insurance claim.
- The Guaranty Association staff begins to adjust and pay claims.
- The Receiver identifies creditors and collects the company's assets.
- The Receiver may distribute, on an interim basis, funds to the guaranty associations to assist them in paying the claims and can make partial distributions to other creditors with the approval of the court and following the state statute for the priority of distributions (631.271, Florida Statutes).
- After all assets are collected there is a final distribution to the guaranty associations and other claimants and the estate is closed.

GUARANTY FUNDS AT WORK





THE STATE BASED GUARANTY SYSTEM

Individual state guaranty funds were created to respond quickly to the concerns of policyholders when an insolvency occurs. Each state guaranty association has differences in their state laws. They can explain coverage benefits, the claim submission and payment process, and understand how to adjudicate claims promptly and efficiently for their state. Through membership in the National Conference of Insurance Guaranty Funds the state based insurance guaranty system is able to enjoy the operational efficiencies of a national system while effectively responding to the often-local concerns of insurance consumers experiencing the stresses associated with the failure of their insurance company.

NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS

NCIGF is a not-for-profit organization whose members are the individual state guaranty fund associations. The NCIGF does not pay claims, but rather coordinates the multi-state claims-paying activities, monitors litigation that may affect multiple guaranty associations, and coordinates on legislative matters. In addition, they provide education and training seminars for guaranty funds and a national forum for discussion on matters impacting guaranty associations. They also serve as a liaison with the National Association of Insurance Commissioners, coordinating resources through the NCIGF to minimize costs and reduce the length of time it takes to respond to a multi-state insolvency.

Information about the individual state guaranty associations can be found on the NCIGF website: www.ncigf.org. This information includes links to state liquidation statutes, a composite picture of current assessment actions, statistics on insolvency activity, as well as educational and training materials.

The FWCIGA is an active member of the NCIGF.

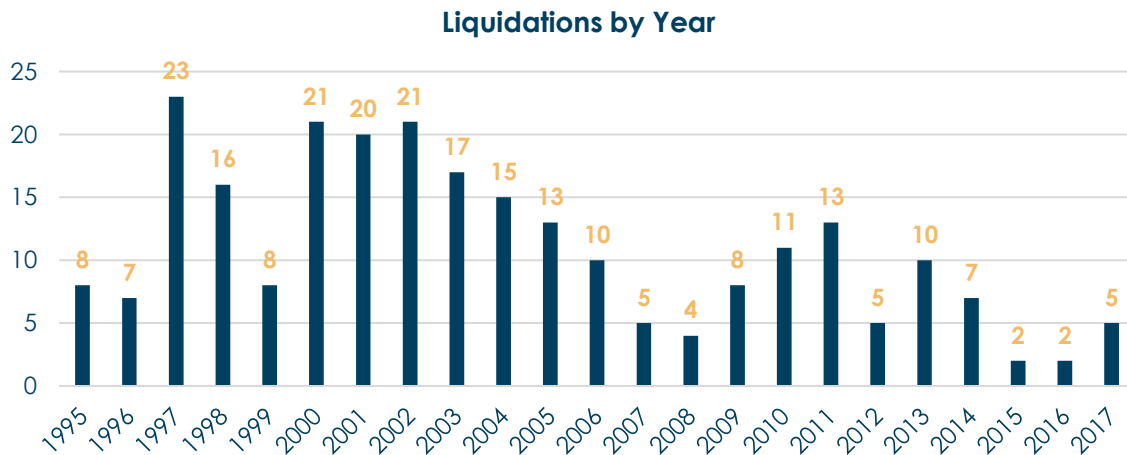


NEW INSOLVENCIES & DISCHARGED ESTATES

2017 LIQUIDATIONS

Across the country there were five liquidations in 2017: CastlePoint National Insurance Company (California), Galen Insurance Company (Missouri), Millers First Insurance Company (Illinois), IFA Insurance Company (New Jersey) and Guarantee Insurance Company (Florida). Only two of these liquidations impacted the FWCIGA: the April 1, 2017 liquidation of CastlePoint National Insurance Company and the November 27, 2017 liquidation of Guarantee Insurance Company.

Below is a chart providing the total number of liquidations by year from 1994 through 2017.



Additional detail about the two liquidations impacting FWCIGA are provided below:

CASTLEPOINT NATIONAL INSURANCE COMPANY

CastlePoint National Insurance Company was placed into conservatorship in California on July 28, 2016. The Conservation Order authorized the Commissioner of Insurance in California to conserve the assets of the organization for the benefit of their claimants, creditors, and shareholders. Prior to the Conservation Order the following companies were merged into CastlePoint National:

- Tower Insurance Company of New York
- Tower National Insurance Company
- Hermitage Insurance Company
- CastlePoint Florida Insurance Company
- North East Insurance Company
- Massachusetts Homeland Insurance Company
- Preserver Insurance Company
- York Insurance Company of Maine
- CastlePoint Insurance Company

Effective April 1, 2017 the Superior Court of the City and County of San Francisco entered a Liquidation Order which triggered the involvement of the guaranty associations in all 50 states. There were 5,900 open claims and \$884 million in liabilities on the date of liquidation. The insolvency of this carrier resulted in the transfer of 213 claims to FWCIGA to date with an anticipated cost of \$78 million. There were no policies in force at the time of liquidation as all policies were non-renewed back in 2014. At this time there have been no distributions made from the estate assets and it is too early to determine what the ultimate cost of this insolvency will be to FWCIGA. The Court set a deadline of December 31, 2017 for the filing of proof of claim notices. The deadline will provide the Receiver with the information needed to determine the number and amount of outstanding liabilities and assist in determining the amount and timing of future estate distributions.

GUARANTEE INSURANCE COMPANY

Guarantee Insurance Company (GIC) was placed into liquidation on November 27, 2017 by the Second Judicial Circuit Court in Leon County, Florida. GIC was originally licensed in Florida in 1977 and re-domesticated to Florida from South Carolina in January of 2007. GIC was licensed in 40 states and the District of Columbia and wrote business in 31 states and DC at the time of the liquidation. At the time of liquidation GIC had approximately 8,600 active policies including 1,250 in Florida. There were approximately 5,900 open claims with liabilities estimated at \$263 million. All policies were cancelled by the Court effective December 27, 2017 and the claim filing deadline was set for May 28, 2018. Approximately 1,450 claims were transferred to FWCIGA at the time of liquidation and new claims are still being identified.

Although it is still early in the transition of these claims to the FWCIGA, the initial estimate of cost to the FWCIGA is in excess of \$90 million. This amount will increase as the policies are cancelled and unearned premium is calculated.

DISCHARGED ESTATES

Also during 2017, three estates were discharged and final estate distributions were made to FWCIGA:

Cosmopolitan Mutual Insurance, was a New York domiciled company that was liquidated November 12, 1980. The cost to the Association is estimated to be \$38 million (there are still 4 open claims). The estate distribution was calculated at 89.06% of the guaranty fund payments or \$33.8 million. The net cost to FWCIGA will be approximately \$4.2 million.

Florida Workers' Compensation Fund, a Self-Insurance Fund, was liquidated May 13, 1999. The FWCIGA handled 584 claims and the estimated cost is \$58.6 million (27 claims remain open). Distributions totaling \$41.4 million were received on this estate and additional funds from reinsurers continue to be received. The final distribution was 100% for administrative expenses and 54.3% for claim payments.

Southern Eagle Insurance Company, was also discharged during 2017. Southern Eagle was domiciled in Florida and was liquidated December 16, 2011. A total of 459 claims were handled by FWCIGA resulting in a cost of \$13.9 million. Estate distributions included 100% of the administrative expenses and just 0.4% for claims payments (\$2.4 million).



FUNDING SOURCES

GUARANTY ASSOCIATION FUNDING SOURCES

Funding for the FWCIGA comes primarily from three sources: distributions obtained from estates of insolvent insurers, investment income and assessments levied on member insurers. Estate distributions are an essential funding source for the Association; the greater the level and frequency of distributions from receiverships, the smaller the need to assess member companies.

ASSESSMENTS

Assessments are levied based upon the premiums written by member companies in the state of Florida. Beginning in 2003, the assessment base was modified to include full policy premiums, which represents premiums written without taking into account discounts and credits resulting from large deductible policies. Assessments are limited to **2% annually** for both insurance companies and group self-insurance funds. However, in the event assessments are insufficient to fund all required

payments, an additional assessment of 1.5% per year may be levied. To date FWCIGA has never utilized the additional assessment.

Prior to 2016, insurance companies paid the assessment to FWCIGA and a factor was built into rates filed by the National Council on Compensation Insurance (NCCI) to allow insurance companies to recoup the assessment. However, in 2016 the Florida Legislature amended the assessment statute for FWCIGA (F.S. 631.914) to provide additional flexibility in its assessment process. The legislation retained FWCIGA's ability to obtain funds quickly, but also introduced an option for insurers to collect and remit assessments in installments over 12 months. Additional information about the change to the assessment process can be obtained at: www.fwciga.org by clicking on the link for "ASSESSMENTS".

No assessments were levied in 2017 and FWCIGA has sufficient funds to meet immediate cash flow needs.

FWCIGA

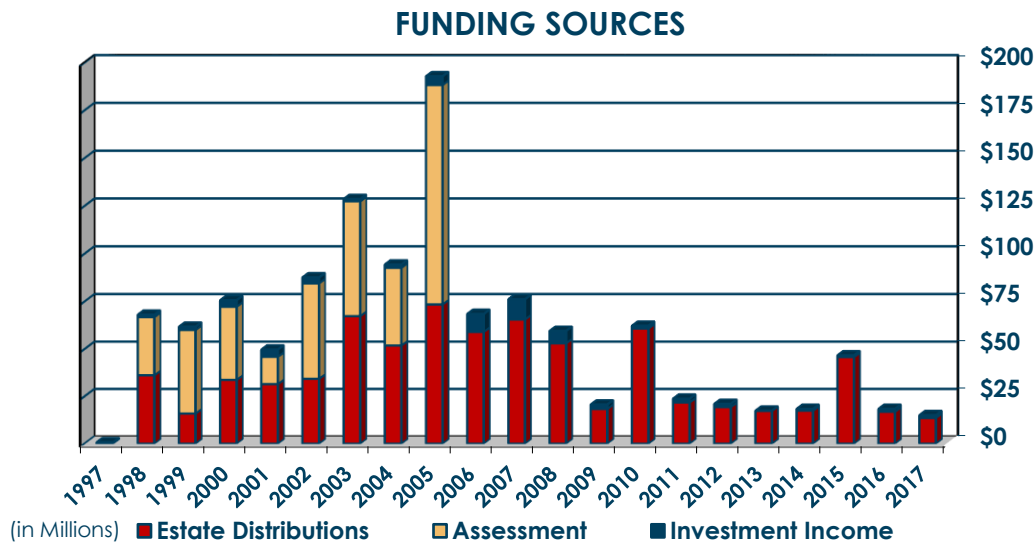
Inception-to-Date Assessments

YEAR	ASSESSMENT %		COMMENTS
	Insurers	Self-Insurance Funds	
2017			No Assessment
2016			No Assessment
2015			No Assessment
2014			No Assessment
2013			No Assessment
2012			No Assessment
2011			No Assessment
2010			No Assessment
2009			No Assessment
2008			No Assessment
2007			No Assessment
2006			No Assessment
2005	2.000%	1.500%	
2004	1.000%	0.750%	
2003	2.000%	1.500%	
2002	2.000%	1.500%	
2001	0.500%	0.500%	
2000	1.750%	1.250%	
1999	2.000%	1.500%	
1998	1.500%	1.000%	
1997			FWCIGA Established - No Assessment

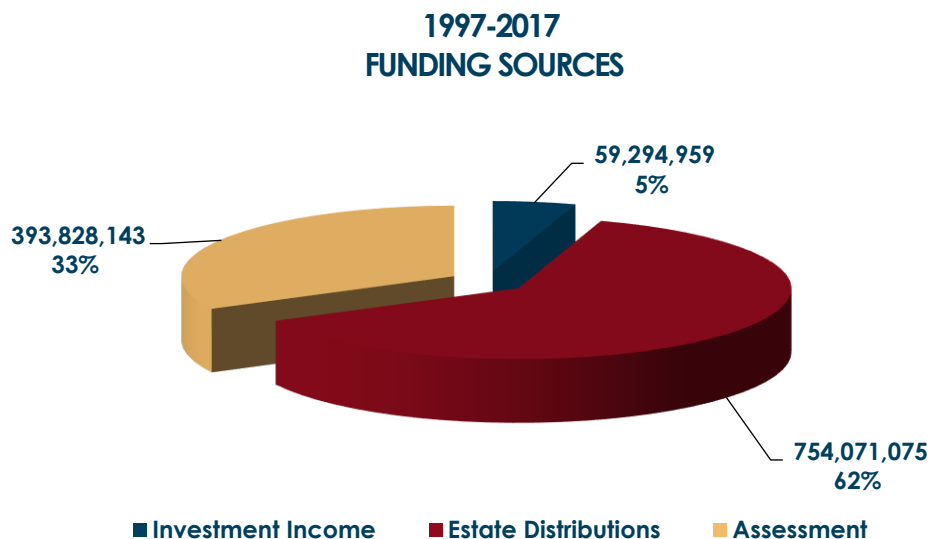
ESTATE DISTRIBUTIONS

Periodically Receivers review the assets and liabilities of each insolvent entity. If there are available funds to make partial distributions to creditors, the Receiver petitions the state court for approval. During 2017 FWCIGA received over **\$13 million** in estate distributions from **20 insolvencies**.

Since the last assessment was levied in 2005, the majority of funding has come from estate distributions. The table below illustrates the funding sources (estate distributions, assessment, and investment income) since 1997.



Inception to date **62%** of the FWCIGA funding has come from estate distributions, **33%** from assessments, and **5%** from investment income.

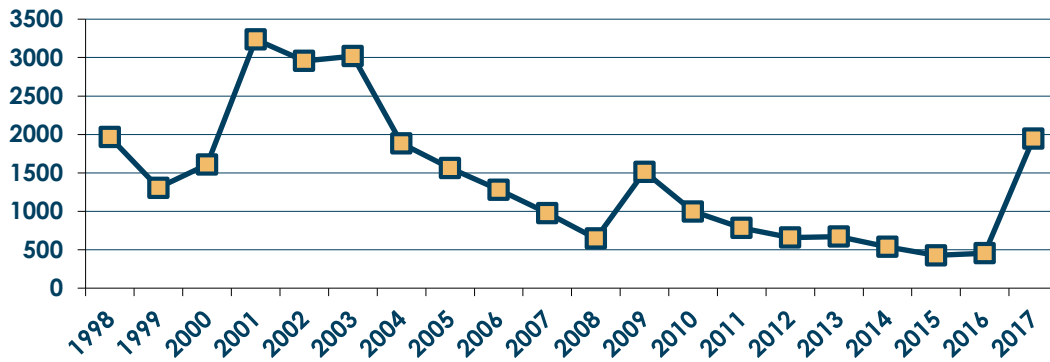


CLAIMS ACTIVITY

At the beginning of 2017 the Association reported a total pending claim count of 454 open files. With the liquidation of CastlePoint National Insurance Company and Guarantee Insurance Company **1,706** new and reopened claims were transferred to FWCIGA. A total of 214 claims were closed during the year resulting in an open claim count of 1,946 at year end. Outstanding reserves for those claims was estimated at **\$212,540,859**.

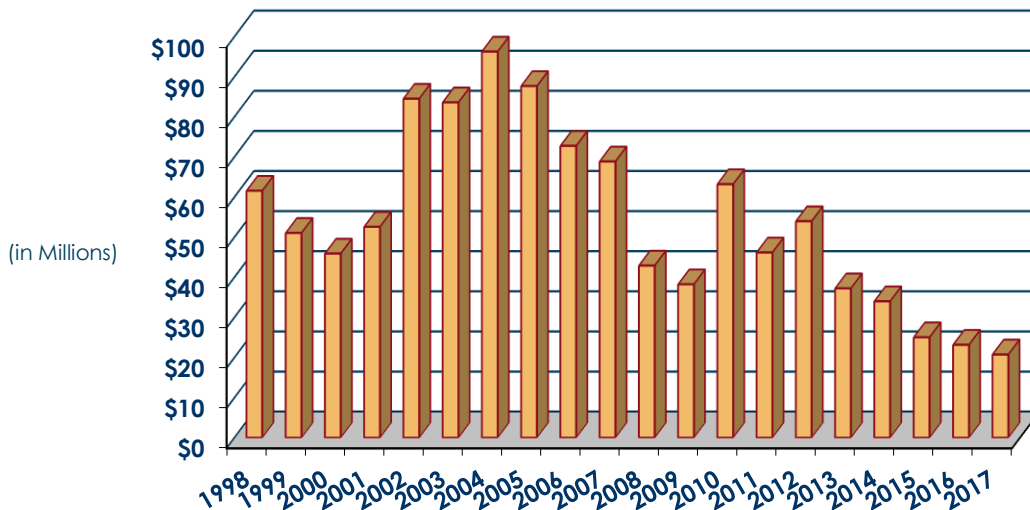
The total net paid on claims for 2017 was **\$20,280,506** compared to **\$23,049,691** in 2016. Payments were made on forty-four (44) different insolvent estates during the year.

NUMBER OF OPEN CLAIMS



CLAIMS & RETURNED PREMIUM PAYMENTS

1998 - 2017



FINANCIAL INFORMATION

The FWCIGA Financial Statements are prepared on a modified basis of cash receipts and disbursements which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States (GAAP). The basis of presentation differs from GAAP because assessments receivable and accruals for loss and loss adjustment expenses are excluded due to the difficulty in estimating those amounts until a liquidation actually occurs. The modified cash basis financial statements are used by most guaranty associations. To provide a more complete picture of the financial position of the FWCIGA it should be noted that the Audited Financial Statements provide a footnote disclosure of the estimated claim liabilities.

As previously disclosed in this report, the outstanding claim liabilities at the end of 2017 were estimated to be at least \$212.5 million. While the current cash held by FWCIGA is not sufficient to cover all of the estimated liabilities, workers' compensation claims are paid over a long period of time and the Association reviews its cash and outstanding liabilities at each Board meeting to determine whether an assessment may be needed to cover upcoming claims payments. During the last two years the net cost of the FWCIGA after payment of claims and receipt of estate distributions was between \$6 and \$7 million.



FINANCIAL INFORMATION



BALANCE SHEET

STATEMENTS OF ASSETS AND LIABILITIES

As of 12/31/2017 & 12/31/2016

Modified Cash Basis (UNAUDITED)

	12/31/2017	12/31/2016
ASSETS		
Cash On Hand & On Deposit	6,021,875	9,302,662
Short Term Investments	14,924,348	1,612,204
Advanced Estate Funds	2,946,015	0
TOTAL CASH AND S/T INVESTED ASSETS	23,892,238	10,914,866
Long Term Investments	74,345,806	94,198,797
Accrued Interest Income	375,684	411,541
FIXED ASSETS (Net of Depreciation)	18,093	24,002
BUILDING (Net of Depreciation)	641,832	664,485
Land	310,000	310,000
Other Assets	131,284	143,429
TOTAL ASSETS	\$ 99,714,937	\$ 106,667,120
LIABILITIES AND ACCOUNT BALANCE		
Accounts Payable	0	782
Early Access Contingent Liability	4,500,000	4,500,000
Fund/Account Balance	95,214,937	102,166,338
TOTAL LIABILITIES AND ACCOUNT BALANCE	\$ 99,714,937	\$ 106,667,120



INCOME STATEMENT

STATEMENTS OF OPERATIONS

For The Years Ended 12/31/2017 & 12/31/2016
Modified Cash Basis (UNAUDITED)

	12/31/2017	12/31/2016
REVENUE		
Early Access	12,140,192	12,148,259
Reimbursements	1,484,976	2,893,231
Interest Income	1,446,906	1,500,456
Other Receipts	3,517	1,847,786
TOTAL REVENUE	\$ 15,075,591	\$ 18,389,733
EXPENSES		
Claims Expenses		
Claims Funding	20,280,506	22,732,863
Unearned Premium	-	-
Direct Estate Expenses	69,309	91,102
Claims Handling Fees	286,808	225,725
TOTAL CLAIMS EXPENSES	20,636,623	23,049,691
General & Administrative Expenses	1,390,369	1,381,720
TOTAL EXPENSES	\$ 22,026,992	\$ 24,431,410
Increase (Decrease) In Net Assets	(6,951,401)	(6,041,677)
Net Assets - Beginning Of Period	102,166,338	108,208,015
NET ASSETS - END OF PERIOD	\$ 95,214,937	\$ 102,166,338

BOARD OF DIRECTORS

The **FWCIGA Board of Directors** is comprised of **eleven (11)** members who meet at least semi-annually to discuss the operations of the Association. Board members are elected to four year terms. Eight (8) of the members are elected from licensed insurers in the state of Florida; six (6) from member carriers, the remaining two (2) from group self-insurance funds. The elected members are confirmed by the state's Chief Financial Officer ("CFO") and joined by the Insurance Consumer Advocate, a CFO Appointee and a Governor's Appointee.

The Board's 2017 meetings, as required by the Plan of Operation (available on the FWCIGA's website), were held on February 27, 2017, May 16, 2017 and November 8, 2017. In addition, the Board has both an Audit Committee and an Investment Committee which meet periodically over the course of each year. Participation at the meetings is always welcome. For information about upcoming meetings please call the Association at (850) 386-9200 or visit the website.

In accordance with Florida Statute 631.912 and the Plan of Operation, an election was held during 2017 for four of the carrier members and the self-insurance fund members. David Conway, Alan Hair, Jim Costa, Brett Stiegel and Tom Stahl were re-elected to the Board. Timothy Spear was elected to replace retiring Board member Richard Palczynski who had served on the Board since 1997.

At the Annual Meeting held on November 8, 2017, the \$1,373,695 general and administrative budget for 2018 was approved. The 2018 budget reflects a 4.7% decrease from the prior year approved budget. Administrative expenses represented less than 7% of the loss and unearned premium costs of the Association for 2017.

The Audit Committee Charter requires completion of a financial audit each year. The 2017 audit commenced in November 2017 with interim field work and is expected to be completed in the first quarter of 2018. The unaudited Financial Statements as of December 31, 2017 are included in this report. Copies of the Audited Financial will be available on the Association's website upon completion.





Below is a listing of the FWCIGA Board of Directors as of December 31, 2017. At the Annual Meeting, Tom Stahl was elected Chairman, and Brett Stiegel was elected Vice Chairman to serve for 2018. Alan Hair serves as the Audit Committee Chair and David Conway serves as the Investment Committee Chair.

MEMBERS	
Matthew P. Brooks	Florida Governor's Appointment
David J. Conway	Summit Consulting, LLC.
Jim Costa	Travelers Insurance
Anthony "Tony" Grippa	Florida Chief Financial Officer Appointment
Alan Hair	FFVA Mutual Insurance Company
Sha`Ron James	Insurance Consumer Advocate - FL Dept. of Financial Services
Timothy J. Spear	Employers
John H. Weber	Zenith Insurance Company
Cina Welch	FCCI Insurance Group

FWCIGA OFFICERS	
Thomas "Tom" W. Stahl	CHAIRMAN - Florida United Businesses Association
Brett Stiegel	VICE CHAIRMAN - FRSA Self Insurers Fund
Sandra J. Robinson	SECRETARY - Florida Workers' Compensation Insurance Guaranty Association
Thomas D. Streukens	TREASURER - Florida Workers' Compensation Insurance Guaranty Association

RECAP OF STATUTES & IMPORTANT LINKS

FWCIGA STATUTES

- **631.902** Purposes
- **631.902 (4)** Employer Liability Coverage
- **631.912** Board of Directors
- **631.913 (1)(c)** Limit for Unearned Premium
- **631.913 (2)** Interest and Penalties
- **631.914** Assessments

GENERAL STATUTES

- **440.385** Florida Self Insurers Guaranty Association
- **624.4621** Group Self-Insurance Funds
- **631.271** Priority of Claims

www.agfgroup.org

www.fwciga.org

<http://www.myfloridacfo.com/division/receiver>

www.ncigf.org