

2019 ANNUAL REPORT

TABLE OF CONTENTS

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01 OVERVIEW & HISTORY

2019 Overview

What Is a Guaranty Association?

History & Background of the Florida Workers' Compensation Insurance Guaranty Association (FWCIGA)

04 THE LIQUIDATION PROCESS

Guaranty Funds at Work

The State-Based Guaranty System

National Conference of Insurance Guaranty Funds (NCIGF)

06 NEW INSOLVENCIES & DISCHARGED ESTATES

2019 Liquidations & Discharged Estates

Northwestern National Insurance Company

Guarantee Insurance Company

Discharged Estates

08 FUNDING SOURCES

Assessments

Estate Distributions

Inception to Date Funding

10 CLAIMS ACTIVITY

Open Claims

Claims & Returned Premium Payments

11 FINANCIAL INFORMATION

Balance Sheet

Income Statement

14 BOARD OF DIRECTORS



OVERVIEW & HISTORY

2019 OVERVIEW

Lawmakers and the insurance industry created property and casualty guaranty funds in the late 1960's 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 2019 there was one insurance company liquidation that impacted FWCIGA. In May, the Wisconsin domiciled Northwestern National Insurance Company was liquidated and resulted in only four claims being transitioned to FWCIGA due to a long term run off. Total exposure for Northwestern National is estimated to be just over \$300,000.

The bulk of the activity in 2019 again related to the November 2017 liquidation of the Guarantee Insurance Company. Guarantee Insurance Company's claim count in Florida was 1,294 as of the November 2017 liquidation date and now stands at 2,129 claims. Guarantee Insurance Company's liquidation impacted over 8,000 policyholders and FWCIGA has paid in excess of \$48 million in loss claims and \$2.1 million in returned premium claims. Every liquidation has unique challenges, but working together with the Wisconsin and Florida liquidation offices with coordination from the National Conference of

Insurance Guaranty Funds minimizes disruptions to policyholders and claimants. 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.

After a 15-year hiatus, during 2019 the FWCIGA Board approved a 1% assessment effective January 1, 2020, its first assessment since 2005. The assessment will bring in approximately \$50 million to FWCIGA, primarily needed for the Guarantee Insurance Company insolvency.

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 its 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 a 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. The 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. 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 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. The 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 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 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.

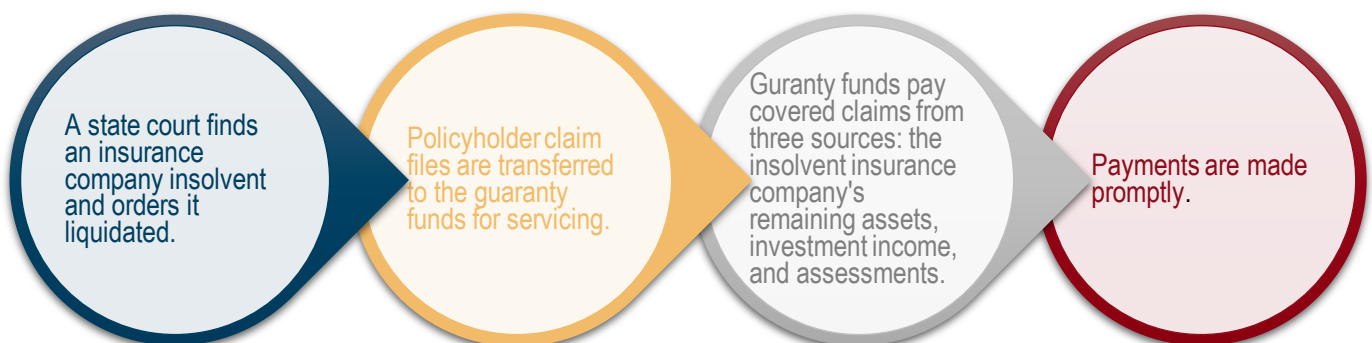
In 2004 the American Guaranty Fund Group ("AGFG") was created to function as the management company for FIGA and the FWCIGA. Both of these entities were created by the legislature but provide services to different types of insurance policies: The FIGA covers automobile insurance, property insurance and other liability lines of insurance; the 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. They can make partial distributions to other creditors with the approval of the court and following the state statute for the priority of distributions (FS 631.271).
- 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 ("NCIGF") 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.

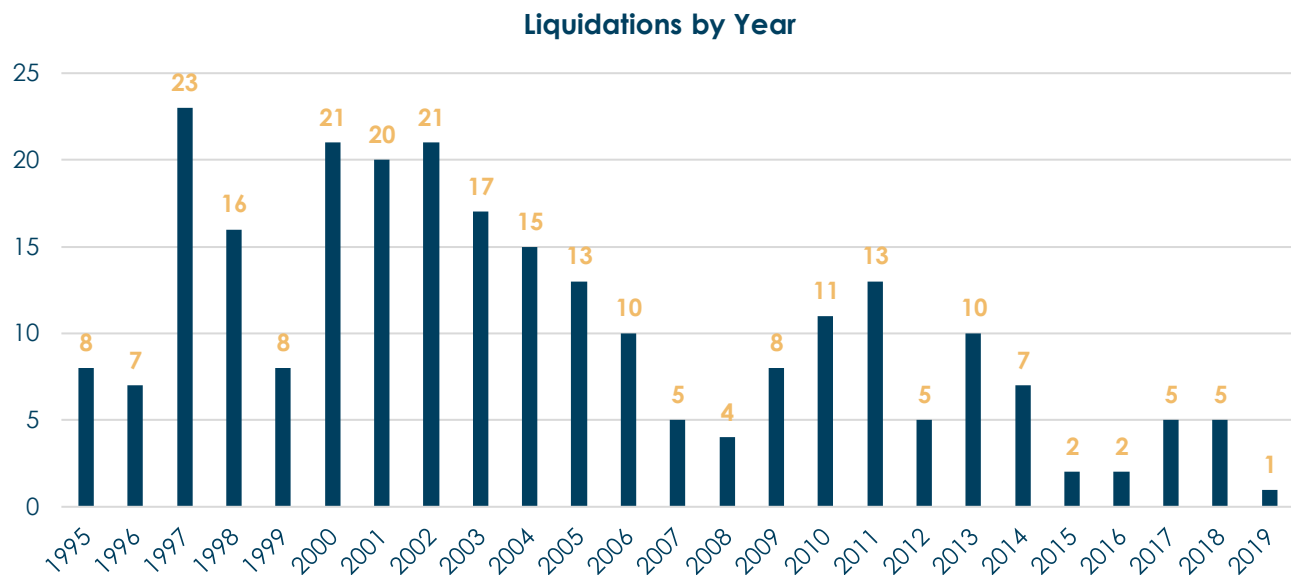
The FWCIGA is an active member of the NCIGF.



NEW INSOLVENCIES & DISCHARGED ESTATES

2019 LIQUIDATIONS

Across the country there was only one liquidation during 2019 that impacted property and casualty guaranty funds, Northwestern National Insurance Company ("Wisconsin"). Northwestern National was liquidated May 2, 2019 by Wisconsin regulators after a long run-off dating back to the 1980's. The November 27, 2017 liquidation of Guarantee Insurance Company continued to have a major impact on FWCIGA throughout 2019. Below is a chart providing the total number of liquidations by year from 1995 through 2019.



Additional detail about liquidations impacting FWCIGA are provided below:

NORTHWESTERN NATIONAL INSURANCE COMPANY

Northwestern National Insurance Company ("NNIC") was placed into liquidation on May 2, 2019 by the Circuit Court in Dane County, Wisconsin. NNIC ceased writing business in the 1980's and had been in voluntary run-off. There were four open claims in Florida with liabilities estimated at just over \$300,000. All but one of the Florida claims have been resolved. The claim filing deadline was set for November 2, 2019 and FWCIGA filed a timely proof-of-claim on October 7, 2019.

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 licensed in 40 states and the District of Columbia and wrote business in 31 states and DC at the time of the liquidation. GIC had approximately 8,600 active policies including 1,250 in Florida at the time of liquidation. Nationwide, there were approximately 6,300 open claims with

liabilities estimated at \$265 million at the date of liquidation. As of year-end 2019 total guaranty association loss claims in the estate increased to nearly 11,000 and \$540 million. Total estate assets reported as of December 31, 2019 were \$38.4 million, offset by \$1.1 billion in liabilities leaving a \$1.02 billion deficit. The 1,300 claims reserved at \$62 million transferred to FWCIGA at the time of liquidation has increased to over 2,129 claims and \$137 million in liabilities.

DISCHARGED ESTATES

Also during 2019, one estate was discharged and final estate distribution made to FWCIGA:

Insurance Company of the Americas, was a Florida domiciled company that was liquidated January 24, 2018 and discharged January 18, 2019. The Association handled 14 claims and the estimated cost is \$9.2 million (there are still 10 open claims). The final distribution was 100% for administrative expenses and 5.2% for claims - totaling \$816 thousand. The net cost to FWCIGA is projected to be approximately \$8.4 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 policy deductibles. 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 to provide additional flexibility in its assessment process (FS 631.914). The legislation retained FWCIGA's ability to obtain funds quickly, but also introduced an option for insurers to remit assessments as they are collected (pass-through) over a 12 month policy term. Additional information about the change to the assessment process can be obtained at: www.fwciga.org by clicking on the link for "RESOURCES" and "FAQ".

No assessments were levied in 2019 as FWCIGA had sufficient funds to meet 2019 cash flow needs.

During its June 18, 2019 meeting, the FWCIGA Board of Directors certified the need for a 1.0% assessment on all member companies effective January 1, 2020. The Florida Office of Insurance Regulation approved the recommendation on August 2, 2019 and issued an order levying the 1.0% assessment using the collect and remit (pass-through) method. Member companies were notified of the assessment on August 7, 2019 and are required to apply a 1.0% premium surcharge to all workers' compensation policies beginning January 1, 2020 through December 31, 2020. Premium surcharges collected are due FWCIGA 30-days after the end of each calendar quarter.

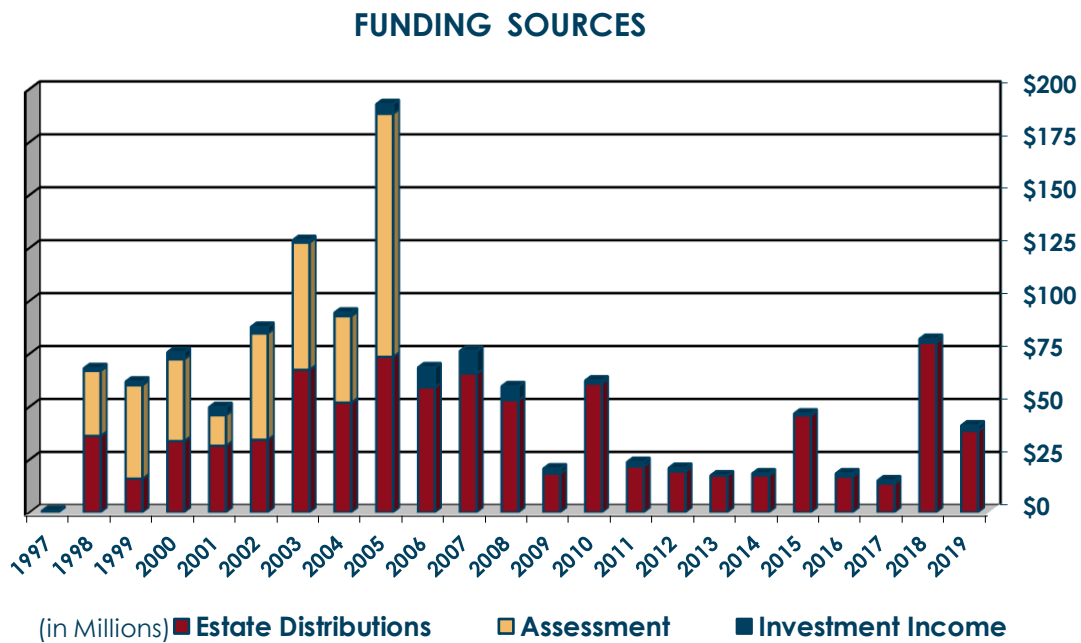
FWCIGA INCEPTION-TO-DATE ASSESSMENTS

YEAR	ASSESSMENT %		COMMENTS
	Insurers	Self-Insurance Funds	
2006 - 2019			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

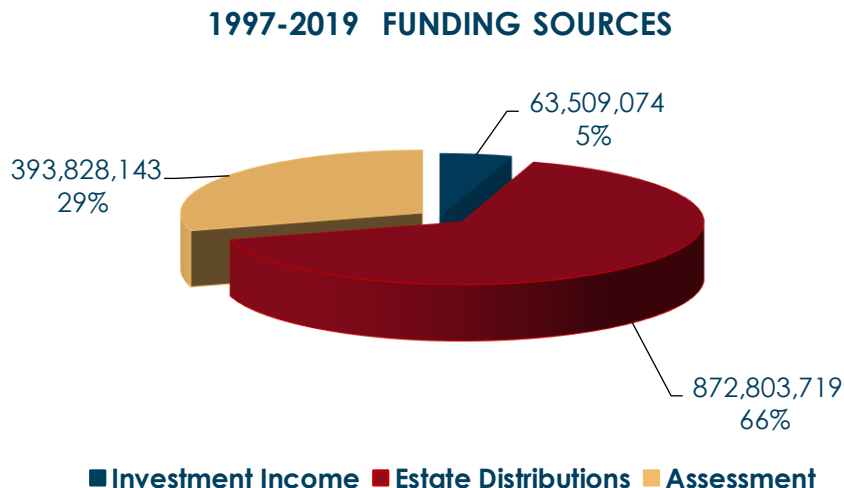
ESTATE DISTRIBUTIONS

Receivers periodically 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 2019 FWCIGA received over **\$43 million** in estate distributions from **20 insolvencies**. The majority of 2019 receipts were from the Reliance (\$24.4. million) and Legion (\$11.8 million) estates.

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, **66%** of the FWCIGA funding has come from estate distributions, **29%** from assessments, and **5%** from investment income.

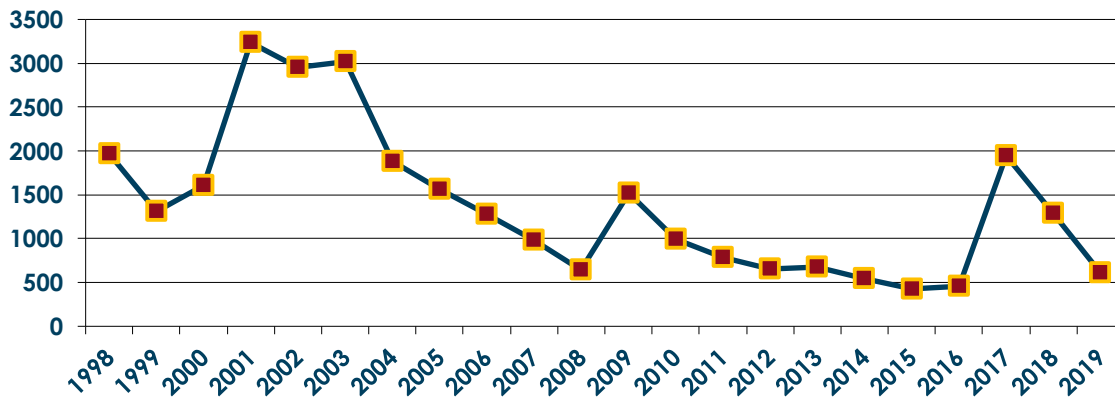


CLAIMS ACTIVITY

At the beginning of 2019 the Association reported a total pending claim count of **1,294** open claim files. With the liquidation of Northwestern National Insurance Company and continued development of Guarantee Insurance Company, **84** new and reopened claims were transferred to FWCIGA. A total of **769** claims were closed during the year, resulting in an open claim count of **609** at year end. Outstanding reserves for those claims were estimated at **\$191.4 million**.

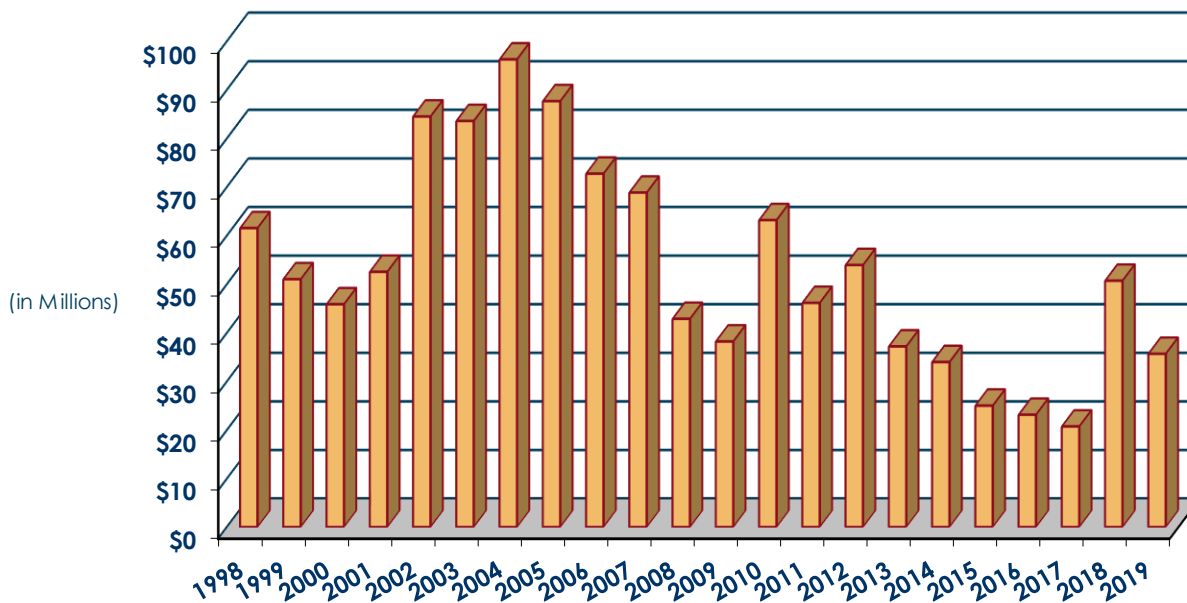
The total net paid on claims for 2019 was **\$35.1 million** compared to **\$47.4 million** in 2018. Payments were made on forty-seven (47) different insolvent estates during the year.

NUMBER OF OPEN CLAIMS



CLAIMS & RETURNED PREMIUM PAYMENTS

1998 - 2019



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 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 2019 were estimated to be \$191.4 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 2016 and 2017, the net impact on FWCIGA, after payment of claims and receipt of estate distributions, was between \$6 and \$7 million. That trend shifted in 2018 and 2019 with net increases resulting from estate distributions in excess of claim payments, primarily from the Reliance and Legion estates.



FINANCIAL INFORMATION



BALANCE SHEET

STATEMENTS OF FINANCIAL POSITION

Modified Cash Basis (UNAUDITED)	As of 12/31/2019	12/31/2018
ASSETS		
Cash On Hand & On Deposit	39,279,814	47,186,937
Short Term Investments	58,097,280	43,170,788
TOTAL CASH AND SHORT-TERM INVESTMENTS	97,377,094	90,357,725
Long Term Investments	39,303,902	37,733,755
Accrued Interest Income	367,450	364,562
Fixed Assets (Net)	50,733	13,423
Building (Net)	596,526	619,179
Land	310,000	310,000
Other Assets	202,597	201,367
TOTAL ASSETS	\$ 138,208,302	\$ 129,600,011
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to AGFG	-	44,503
TOTAL LIABILITIES	-	44,503
NET ASSETS		
Early Access Contingent Liability	4,500,000	4,500,000
Fund/Account Balance	133,708,302	125,055,508
TOTAL NET ASSETS	138,208,302	129,555,508
TOTAL LIABILITIES AND ACCOUNT BALANCE	\$ 138,208,302	\$ 129,600,011

INCOME STATEMENT

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	For The Years Ended	
Modified Cash Basis (UNAUDITED)	12/31/2019	12/31/2018
REVENUES		
Early Access	38,983,437	74,650,452
Reimbursements	4,562,786	5,535,969
Interest Income, NET of Related Expenses	2,505,221	1,708,894
TOTAL REVENUE	\$ 46,051,444	\$ 81,895,315
EXPENSES		
Claims & Claims Expense Paid	35,120,022	47,395,832
Returned Premium	462,030	1,711,204
Claims Handling Fees	335,958	1,425,380
Direct Estate Expenses	29,139	90,918
General & Administrative Expenses	1,451,501	1,431,411
TOTAL EXPENSES	\$ 37,398,650	\$ 52,054,745
Change In Net Assets	8,652,794	29,840,570
Net Assets - Beginning Of Period	125,055,508	95,214,938
NET ASSETS - END OF PERIOD	\$ 133,708,302	\$ 125,055,508

BOARD OF DIRECTORS

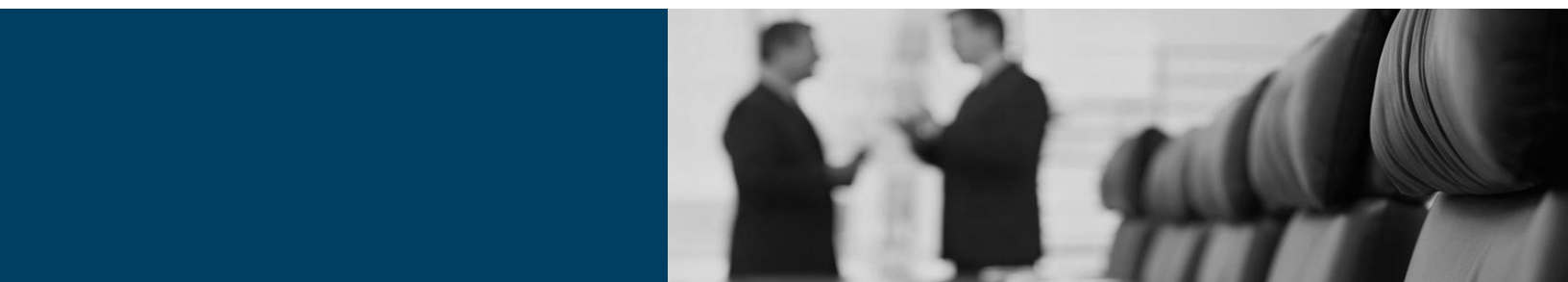
The **FWCIGA Board of Directors** is comprised of **eleven (11)** members who meet at least semi-annually to discuss the operations of the Association. Board members are elected to four year terms. Eight (8) of the members are elected from licensed insurers in the state of Florida; six (6) from member 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 2019 meetings, as required by the Plan of Operation (available on the FWCIGA's website) were held on April 23, 2019, June 10, 2019, September 27, 2019 and November 19, 2019. 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.

At the Annual Meeting held on November 19, 2019, a \$1.5 million general and administrative budget for 2020 was approved. The 2020 budget reflects a 0.8% decrease from the prior year approved budget. Administrative expenses represented approximately 5% of the loss and unearned premium costs of the Association for 2019.

The Audit Committee Charter requires completion of a financial audit each year. The 2019 audit commenced in November 2019 with interim field work and is expected to be completed in the first quarter of 2020. The unaudited Financial Statements as of December 31, 2019 are included in this report. Copies of the Audited Financials will be available on the Association's website upon completion.





Below is a listing of the FWCIGA Board of Directors as of December 31, 2019. At the Annual Meeting, Tom Stahl was elected Chairman, and Brett Stiegel was elected Vice Chairman to serve for 2020. Jim Costa 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
Tasha Carter	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	
Tom W. Stahl	CHAIRMAN - Florida United Businesses Association
Brett Stiegel	VICE CHAIRMAN - FRSA Self Insurers Fund
Thomas D. Streukens	SECRETARY - Florida Workers' Compensation Insurance Guaranty Association
Corey Neal	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



- [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



FLORIDA WORKERS' COMPENSATION INSURANCE GUARANTY ASSOCIATION



P.O. BOX 15159
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(850)386-9200
TOLL FREE: (866)909-9200



www.fwciga.org