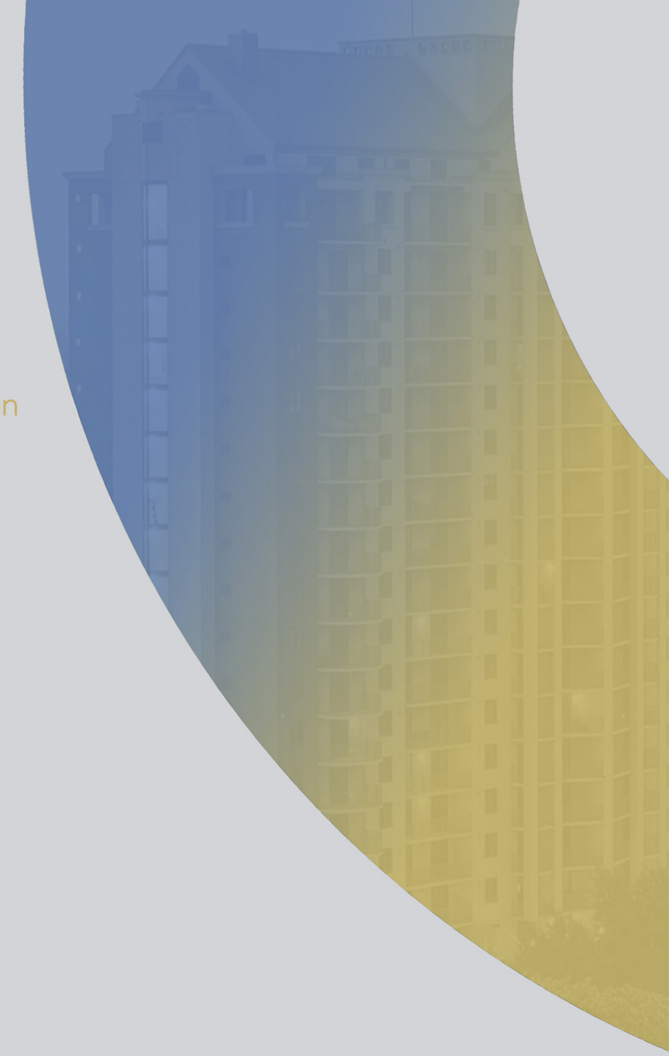
FWCIGA

FLORIDA WORKERS' COMPENSATION INSURANCE GUARANTY ASSOCIATION

2022

ANNUAL REPORT



OVERVIEW + HISTORY

2022 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.

2022 was another quiet year as the recent Florida insolvencies had no impact on FWCIGA. The Association continues its efforts to resolve the open claims from prior insolvencies and prepare for future activities.

Every liquidation has unique challenges, but working together with the domiciliary state 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, the FWCIGA Board approved a 1% assessment effective January 1, 2020, its first assessment since 2005. Member Insurers implemented the assessment surcharge on new and renewal business with effective dates January 1, 2020 through December 31, 2020. Assessment collections received through December 31, 2022 for policies incepting during 2020 totaled $48 million. Effort is underway to ensure that FWCIGA collected all assessments billed by members during the assessment period. In November 2021 the FWCIGA board determined resources were sufficient and voted to not request an assessment for 2022. In December 2022 the FWCIGA Board again determined resources were sufficient and did not request an assessment for 2023.

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 continuously work to protect claimants and policyholders by stepping in to pay claims of insolvent insurers.

Over the next several pages, we provide 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 in section 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)].

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.

PURPOSE

“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.

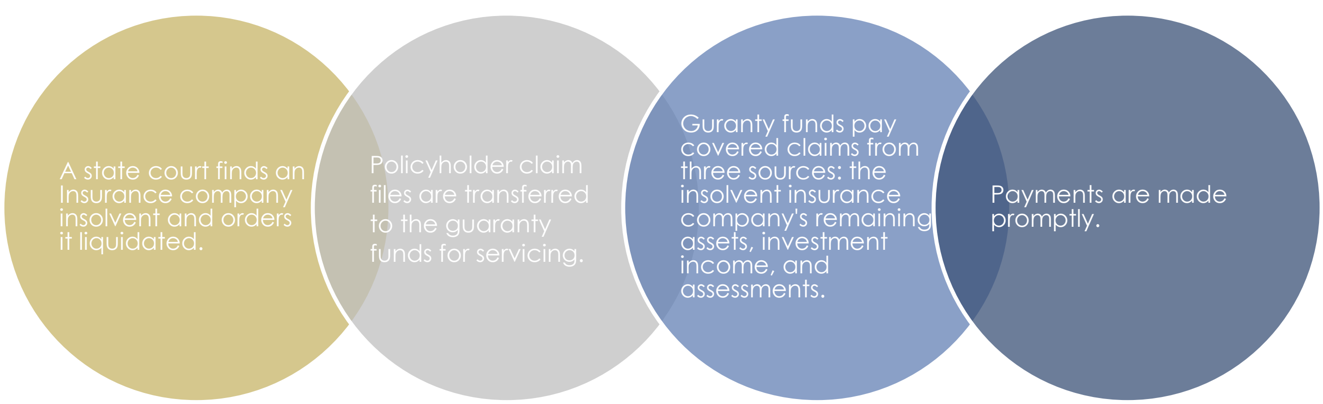
In 2004 the American Guaranty Fund Group [“AGFG”] was created to function as the management company for FIGA and the FWCIGA. Both of these entities were created by the legislature but provide services to different types of insurance policies: The FIGA covers automobile insurance, property insurance and 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, a final distribution is made to the guaranty associations and other claimants before 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

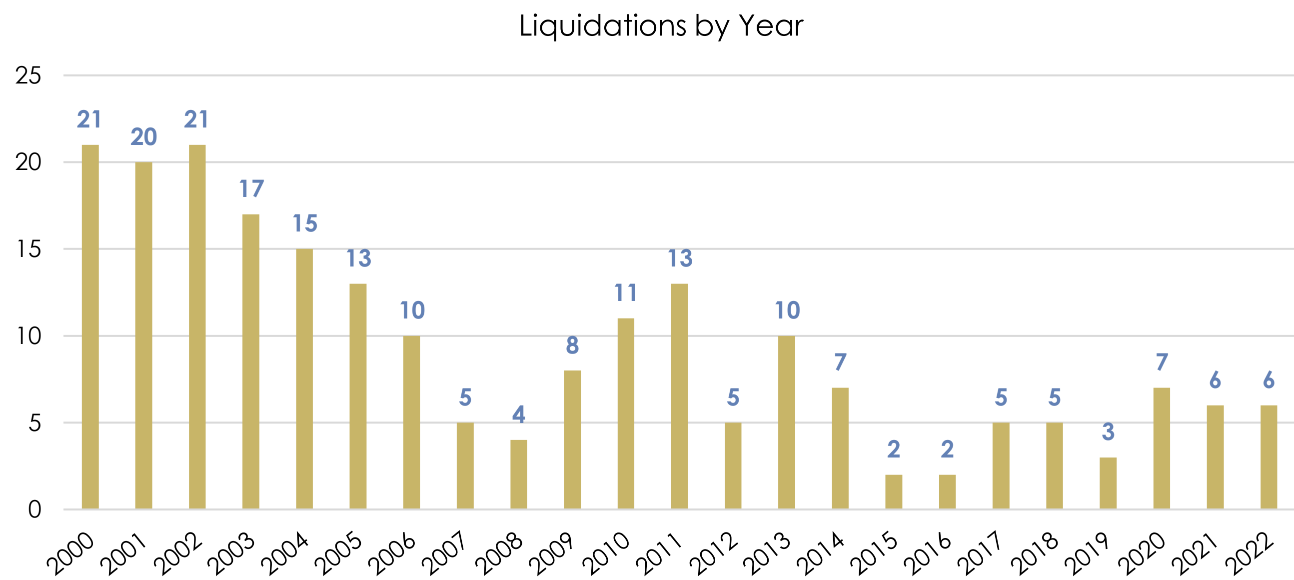
NCIGF is a not-for-profit organization whose members are the individual state guaranty fund associations. The NCIGF does not pay claims, but rather coordinates the multi-state claims-paying activities, monitors litigation that may affect multiple guaranty associations, and coordinates on legislative 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

2022 LIQUIDATIONS

Across the country there were six [6] liquidations during 2022 that impacted property and casualty guaranty funds: St. Johns Insurance Company, Inc., Avatar Property & Casualty Insurance Company, Lighthouse Property Insurance Company, Southern Fidelity Insurance Company, Weston Property & Casualty Insurance Company and FedNat Insurance Company. All of the new insolvencies were domiciled in the state of Florida with the exception for Lighthouse Property Insurance Company who was liquidated in the state of Louisiana. Fortunately, none of these new insolvencies affected FWCIGA. The November 27, 2017 liquidation of Guarantee Insurance Company continued to have a major impact on FWCIGA throughout 2022. Below is a chart providing the total number of liquidations by year from 2000 through 2022.



Additional detail about liquidations impacting FWCIGA are provided below:

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. Nationwide, there were approximately 6,300 open claims with liabilities estimated at $265 million at the date of liquidation. As of September 30, 2022, total guaranty association losses in the estate grew to 11,000 claims and $488 million. Total estate assets reported as of September 30, 2022 were $48.5 million, offset by $1.0 billion in liabilities leaving a $951.5

million deficit. The 1,300 claims reserved at $62 million transferred to FWCIGA at the time of liquidation has increased to over 2,146 claims with $120 million in incurred losses.

DISCHARGED ESTATES

During 2022, no estates were discharged impacting FWCIGA.

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".

In 2019, 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 began applying a 1.0% premium surcharge to all workers' compensation policies beginning January 1, 2020 through December 31, 2020. Premium surcharges were collected and remitted to FWCIGA 30-days after the end of each calendar quarter.

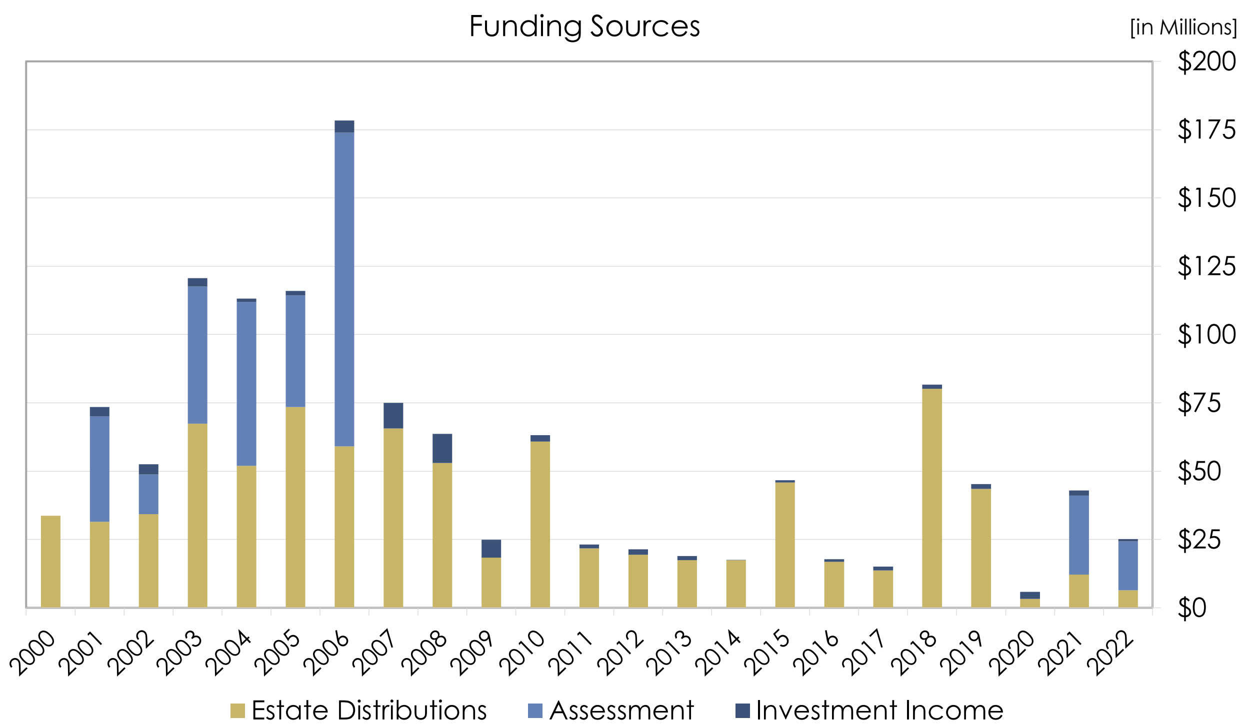
The 2020 Assessment generated **$48 million through year-end 2022**. The FWCIGA Board agreed in December 2022 that resources were sufficient and that an assessment was not required in 2023.

YEAR[s]	Assessment Rate by Carrier Type	
	INSURERS	SELF-INSURANCE FUNDS
2021 - 2022	No Assessments levied	
2020	1.000%	1.000%
2006 - 2019	No Assessments levied	

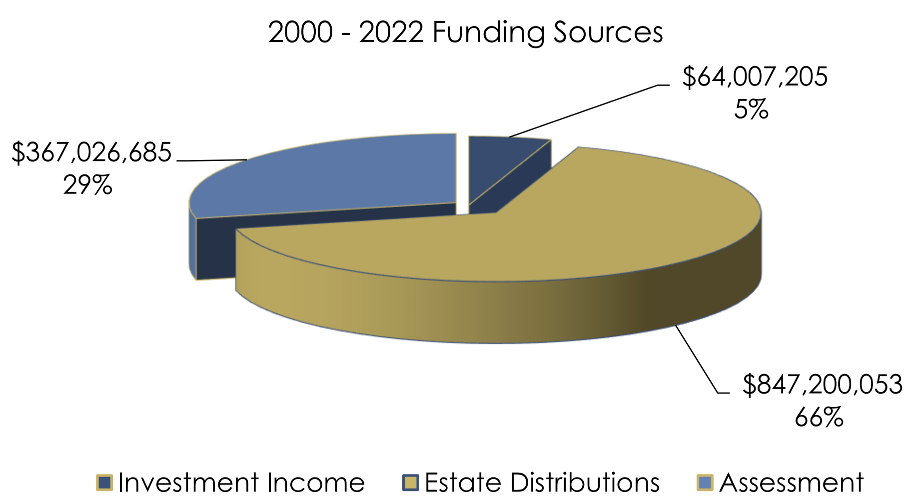
ESTATE DISTRIBUTIONS

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 2022 FWCIGA received **$6.4 million** in estate distributions from **13 insolvencies**.

Since the last assessment was levied in 2005, the majority of funding has come from estate distributions. That changed in 2020 with **$48 million** in Assessment funding collected through December 2022. The table below illustrates the funding sources [estate distributions, assessment, and investment income] since 2000.

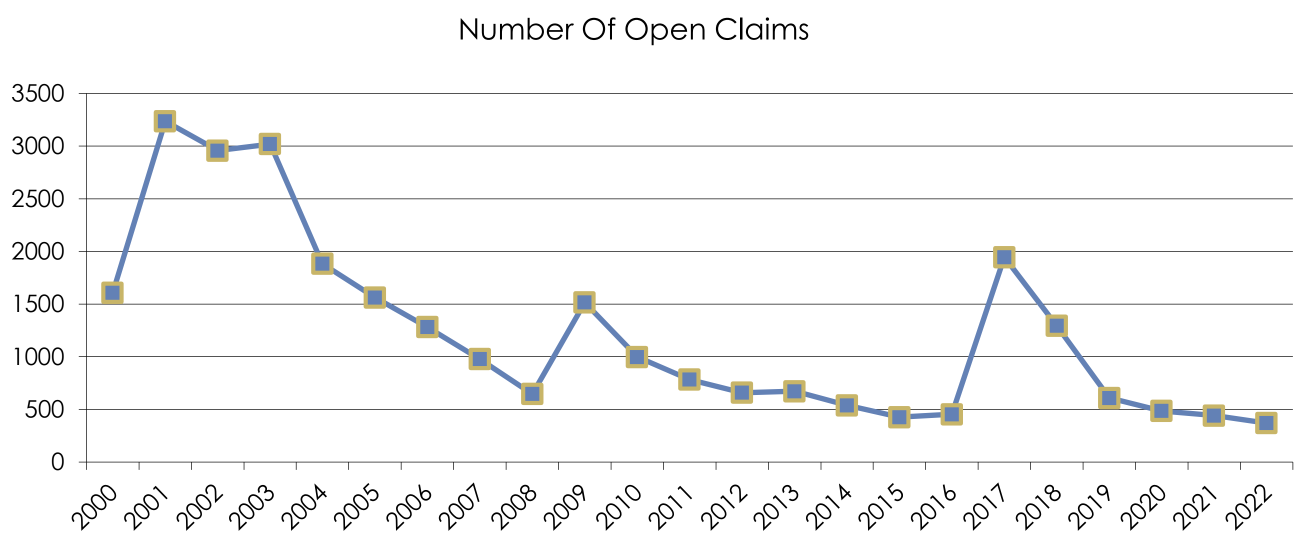


Since 2000, **66%** of the FWCIGA funding has come from estate distributions, **29%** from assessments, and **5%** from investment income.

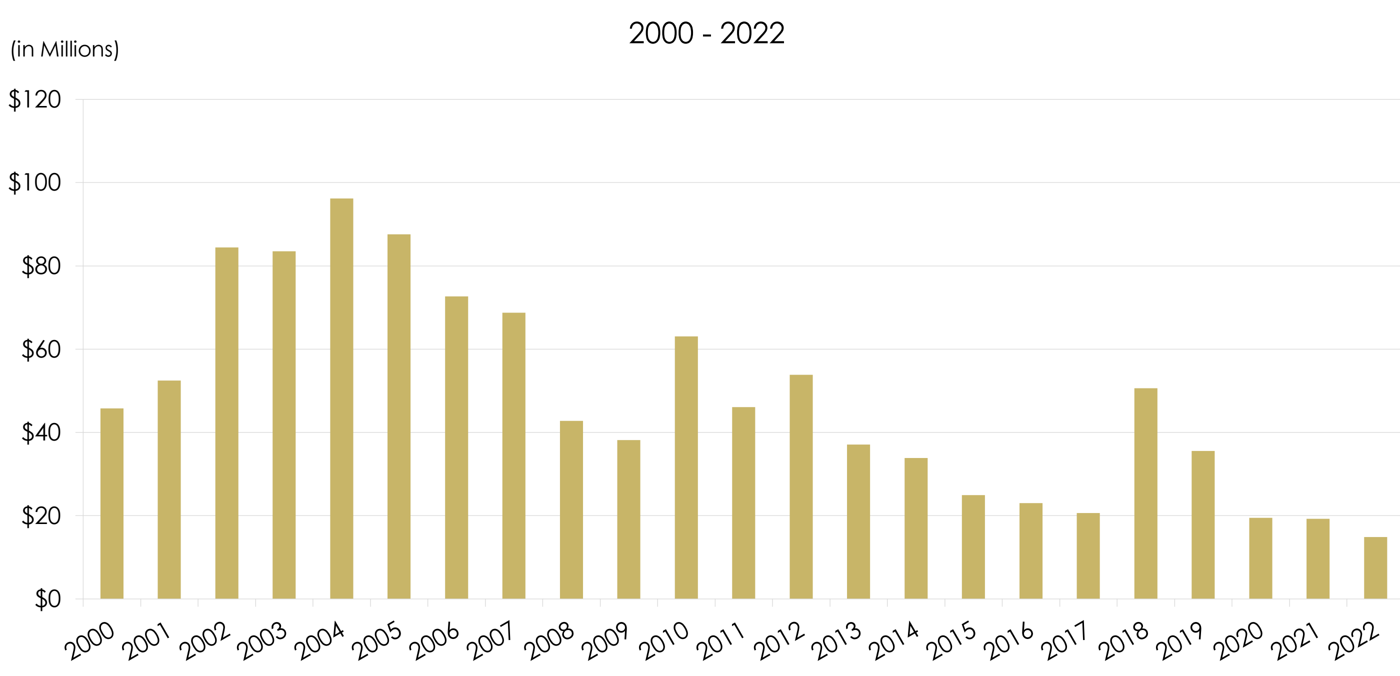


CLAIMS ACTIVITY

FWCIGA is down to its lowest claim levels in over 23 years. At the beginning of 2022 the Association reported a total pending claim count of **442 open claim** files. During the year, 32 new and reopened claims were transferred to FWCIGA. A total of 104 claims were closed during the year, resulting in an open claim count of 370 at year end. Outstanding reserves for those claims were estimated at **$120 million**. The total net paid on claims for 2022 was **$15 million** compared to **$19 million** in 2021.



CLAIMS & RETURNED PREMIUM PAYMENTS



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 2022 were estimated to be **$120 million**. While the current cash held by FWCIGA has historically not been sufficient to cover all of the estimated liabilities, workers' compensation claims are paid over a long period of time. 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. That trend shifted in 2018-2022 with net increases resulting from assessments and estate distributions in excess of claim payments, primarily from the Reliance and Legion estates.

ASSETS LIABILITIES REVENUE EXPENSES

FINANCIAL INFORMATION

BALANCE SHEET

STATEMENTS OF FINANCIAL POSITION		
	As of	
Modified Cash Basis (UNAUDITED)	**12/31/2022**	**12/31/2021**
ASSETS		
Cash On Hand & On Deposit	21,872,232	14,357,684
Short Term Investments	49,321,793	27,178,464
TOTAL CASH AND SHORT-TERM INVESTMENTS	**71,194,025**	**41,536,148**
Long Term Investments	80,736,794	118,142,712
Accrued Interest Income	284,288	216,948
Fixed Assets (Net)	6,594	35,756
Building (Net)	554,483	551,220
Land	310,000	310,000
Other Assets	179,092	200,905
TOTAL ASSETS	**$ 153,265,276**	**$ 160,993,689**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to AGFG	58,015	-
TOTAL LIABILITIES	58,015	-
NET ASSETS		
Early Access Contingent Liability	4,500,000	4,500,000
Fund/Account Balance	148,707,261	156,493,689
TOTAL NET ASSETS	153,207,261	160,993,689
TOTAL LIABILITIES AND ACCOUNT BALANCE	**$ 153,265,276**	**$ 160,993,689**

INCOME STATEMENT

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Modified Cash Basis (UNAUDITED)	For The Years Ended 12/31/2022	12/31/2021
REVENUES		
Assessments	1,248,756	17,966,963
Early Access	3,579,082	11,490,194
Reimbursements	2,822,405	622,902
Interest Income, NET of Related Expenses	1,028,433	795,835
TOTAL REVENUE	**$ 8,678,676**	**$ 30,875,894**
EXPENSES		
Claims & Claims Expense Paid	14,879,564	19,282,868
Claims Handling Fees	134,200	207,819
Direct Estate Expenses	3,151	2,225
General & Administrative Expenses	1,448,189	1,480,373
TOTAL EXPENSES	**$ 16,465,104**	**$ 20,973,285**
Change In Net Assets	(7,786,428)	9,902,609
Net Assets - Beginning Of Period	156,493,689	146,591,080
NET ASSETS - END OF PERIOD	**$ 148,707,261**	**$ 156,493,689**

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 and two [2] members 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 2022 meetings, as required by the Plan of Operation (available on the FWCIGA's website) were held on March 30, 2022, October 14, 2022, and December 7, 2022. 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 December 7, 2022, a $1.3 million general and administrative budget for 2023 was approved. The 2023 budget reflects a 16.8% or $264,117 decrease from the prior year approved budget. Administrative expenses represented approximately 9% of the loss and unearned premium costs of the Association for 2022.

The Audit Committee Charter requires completion of a financial audit each year. The 2022 audit commenced in November 2022 with interim field work and is expected to be completed in the first quarter of 2023. The unaudited Financial Statements as of December 31, 2022 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, 2022. Tom Stahl is the elected Chairman, and Brett Stiegel is the elected Vice Chairman. Elections will occur in early 2023. Alan Hair serves as the Audit Committee Chair and Matthew Brooks serves as the Investment Committee Chair.

MEMBERS	AFFILIATION
Matthew P. Brooks	Florida Governor's Appointment
Robert deViere	ICW Group
Jim Costa	Travelers Insurance
Therese Stevens	Florida Chief Financial Officer Appointment
Alan Hair	FFVA Mutual Insurance Company
Tasha Carter	Insurance Consumer Advocate - FL Dept. of Financial Services
John H. Weber	Zenith Insurance Company
Jim Ward	The Hartford Insurance Company
Sam Oswald	Florida Citrus Business and Industries Fund

FWCIGA OFFICERS	TITLE & AFFILIATION
Tom Stahl	**Chairman** - Florida United Businesses Association
Brett Stiegel	**Vice chairman** - FRSA Self Insurers Fund
Corey Neal	**Secretary/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

FWCIGA

FLORIDA WORKERS' COMPENSATION
INSURANCE GUARANTY ASSOCIATION

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FWCIGA
FLORIDA WORKERS' COMPENSATION
INSURANCE GUARANTY ASSOCIATION

[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