



The Property Casualty Insurance Guaranty Funds and the NCIGF:
Keeping the Insurance Promise for 25 Years.

Current Issues Arising From Large Deductible Programs In Insurance Insolvencies



Your Presenters:

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Large Deductible Programs

- Were developed during the last 25 years
- Have grown to have substantial role in the insurance marketplace
- Allow policyholder to assume structured risk and reduce premiums and frictional costs



Large Deductible Credits (Florida only)

- Written Premium: \$2,114,529,190
- Less Dividends: (\$56,924,091)
- Deductible Credits: \$1,433,680,016

- Total Assessable Premium: **\$3,491,525,357**

- *Deductible Credits are 41% of the total Assessable Premium.*



Professional Employer Organizations (“PEOs”)

- Are deemed a “co-employer”
- Assume various administrative and compliance functions of the employer
- Provide valuable assistance to smaller businesses



PEO Statistics & Facts



Industry had \$92 billion of revenue (payroll and fees) in 2012

About 700-900 PEOs are operating in 50 states, with 2.5 million people part of PEO arrangements

PEO revenue growth rate has been steadily on the rise, up to just over 10% in 2012

The average client of NAPEO members is a small business with an average of 20 employees

NAPEO claims PEOs reduce workers compensation costs by as much as 25% for small business

Source: <http://www.napeo.org/peoindustry/industryfacts.cfm>
& Facts Sheet



When It All Goes Wrong: Insurance Company/PEO Insolvency



Workers Compensation Insolvencies 2008-2014

Total # of Insolvencies: 25

Total # of Claims: 27,526



IMPACT ON INJURED WORKER

Payment delays and interruptions

Case Study:



Impact on Employer (Policyholder/PEO client)

- Unanticipated/unknown liability
- Increased insurance costs if GA must assess



Typical Claims Administration Problems

- Outsourced claims administration
- Multiple claims systems
- Difficulty getting complete claims file and coverage information



Typical Financial Problems

- Inadequate premium
- Inadequate and/or commingled, dissipated collateral
- Poorly drafted agreements
- Poor financial controls



Typical Operational Problems

- Incomplete or vague records
- Fraud and poor financial controls
- Conflicts of interest
- Ineffective oversight
- Collection issues



Results of Insurance Insolvencies

- COST: in four insolvencies since 2009
 - Park Avenue \$75 million
 - Imperial Casualty \$40 million
 - ULLICO \$385 million
 - Freestone \$124 million
- Total GA claims, expenses and reserves \$624 million
- Total early access \$20.4 million



Sources of Guaranty Fund Recovery

- Collateral
 - Often insufficient or non-existent
 - Comingled with other assets/funds
 - Sometimes not in Receiver's custody or control
- LD Recoveries from PEO policyholder
 - PEOs often resist collection, assert defenses based upon actions of the insurer
 - Absent Large Deductible legislation, standing issues regarding litigation recoveries



Aggregate Guaranty Association Exposure as of 12/13/2014 - Company 1

PEO	GA Total Paid WID	GA Total Reserves WID	GA Total Exposure WID	Intermingled Collateral ¹	Collateral as % of Exposure WID
PEO 1	\$1,072,466.88	\$15,290.61	\$1,087,757.49	\$1,000,000.00	91.9%
PEO 2	\$732,198.54	\$157,205.79	\$889,404.33	\$375,000.00	42.2%
PEO 3	\$5,557,352.36	\$654,004.36	\$6,211,356.72	\$6,410,158.26	103.2%
PEO 4	\$2,455,682.04	\$441,371.66	\$2,897,053.70	\$362,500.00	12.5%
PEO 5	\$1,795,078.68	\$893,012.73	\$2,688,091.41	\$0.00	0.0%
PEO 6	\$685,536.66	\$14,731.88	\$700,268.54	\$300,000.00	42.8%
PEO 7	\$4,346,175.23	\$1,118,897.33	\$5,465,072.56	\$750,000.00	13.7%
PEO 8	\$10,553,632.14	\$4,626,729.32	\$15,180,361.46	\$2,250,000.00	14.8%
PEO 9	\$415,340.92	\$68,014.67	\$483,355.59	\$339,200.02	70.2%
PEO 10	\$1,862,652.64	\$0.00	\$1,862,652.64	\$1,200,000.00	64.4%
PEO 11	\$470,496.11	\$250,418.93	\$720,915.04	\$708,335.00	98.3%
PEO 12	\$138,291.82	\$16,047.55	\$154,339.37	\$449,918.60	291.5%
PEO 13	\$0.00	\$0.00	\$0.00	\$0.00	
PEO 14	\$483,704.63	\$149,651.74	\$633,356.37	\$300,000.00	47.4%
PEO 15	\$54,726.23	\$78,781.35	\$133,507.58	\$220,131.11	164.9%



Aggregate Guaranty Association Exposure as of 12/13/2014 - Company 1 cont.

PEO	GA Total Paid WID	GA Total Reserves WID	GA Total Exposure WID	Intermingled Collateral ¹	Collateral as % of Exposure WID
PEO 16	\$345,518.22	\$40,587.96	\$386,106.18	\$250,000.00	64.7%
PEO 17	\$14,835,452.74	\$3,814,896.68	\$18,650,349.42	\$3,000,000.00	16.1%
PEO 18	\$0.00	\$0.00	\$0.00	\$0.00	
PEO 19	\$0.00	\$0.00	\$0.00	\$0.00	
PEO 20	\$3,580,096.15	\$294,478.43	\$3,874,574.58	\$1,000,000.00	25.8%
PEO 21	\$1,837,900.62	\$1,402,417.10	\$3,240,317.72	\$1,500,000.00	46.3%
PEO 22	\$590,443.49	\$0.00	\$590,443.49	\$250,000.00	42.3%
PEO 23	\$452,479.06	\$30,372.20	\$482,851.26	\$0.00	0.0%
PEO 24	\$1,001,058.85	\$616,747.17	\$1,617,806.02	\$1,000,019.50	61.8%
PEO 25	\$455,020.36	\$70,835.35	\$525,855.71	\$150,000.00	28.5%
PEO 26	\$1,577,438.60	\$555,832.78	\$2,133,271.38	\$1,000,000.00	46.9%
PEO 27	\$0.00	\$0.00	\$0.00	\$0.00	
PEO 28	\$269,431.21	\$40,084.17	\$309,515.38	\$250,000.00	80.8%
PEO 29	\$333,640.78	\$30,716.22	\$364,357.00	\$0.00	0.0%
Total	\$55,901,814.96	\$15,381,125.98	\$71,282,940.94	\$23,065,262.49	32.4%

¹The Receiver has taken the position that the collateral has been commingled with other estate assets. The GAs may not receive the benefit of all of the collateral funds.



Aggregate Guaranty Fund Exposure Company 2

Entity	GA Total Exposure WID	Program Manager Held Collateral
PEO 1	\$237,789.84	\$346,189.51
PEO 2	\$26,876,978.04	\$9,250,615.17
PEO 3	\$325,957.66	\$258,525.96
PEO 4	n/a	\$102,949.34
PEO 5	\$704,895.58	unknown
PEO 6	\$352,337.14	\$359,244.97
PEO 7	n/a	\$122,498.59
PEO 8	\$405,721.57	unknown
PEO 9		\$67,907.00
PEO 10	\$1,846,739.91	unknown
PEO 11	\$4,200,537.05	unknown
PEO 12	\$516,310.33	\$289,550.22
PEO 13	\$560,370.74	unknown
PEO 14	\$760,009.70	unknown
PEO 15	\$2,548,231.97	\$1,824,041.81
PEO 16	\$345,414.67	unknown
PEO 17	\$139,565.35	\$904,279.02



Aggregate Guaranty Fund Exposure Company 2 cont.

Entity	GA Total Exposure WID	Program Manager Held Collateral
PEO 18	\$14,813.78	\$164,542.57
PEO 19	\$175,948.09	\$6,453.23
PEO 20	\$682,517.59	\$55,825.38
PEO 21	\$462,569.08	unknown
PEO 22	\$69,532.26	\$135,047.98
PEO 23	\$2,092,991.68	unknown
PEO 24	\$21,748.92	\$572,409.97
PEO 25	\$8,900,026.95	\$4,504,658.35
PEO 26	\$219,064.56	unknown
PEO 27	\$17,579,764.79	\$4,257,661.00
PEO 28	\$3,426,986.45	\$596,351.83
PEO 29	\$45,735.83	\$246,780.39
PEO 30	\$14,992,007.27	unknown
PEO 31	\$3,580,692.47	\$3,011,703.09
PEO 32	\$4,379,806.52	\$1,902,084.58
TOTAL	\$96,465,065.79	\$28,979,319.96

NOTE: WID means within deductible; calculations were made based on the Receiver's Spreadsheets as follows: Total Paid WID is the sum of "Paid Loss" and "Paid LAE"; Total Reserves WID is the sum of "Outstanding" and "LAER"



Solutions for Consideration

- Large Deductible Statute to govern rights and obligations in insurance liquidation
- Legislation to govern Collateral Requirements
- Education
- Audits, financial statement disclosures, possible revisions to NAIC SSAP 65



Proactive Planning

- GAs always seek pre-liquidation planning, but in a complex liquidation with LD programs it is **REALLY IMPORTANT**
 - Multiple claims administrator
 - Data/claims files issues
 - Cooperative approach on LD Collection and quick action



Discussion and Questions



To Learn More....

- Katie School: ***The Role of Large Deductible Policies for PEOs in the Failures of Small Workers' Compensation Insurers***
<http://business.illinoisstate.edu/katie/industry/research.shtml>
- NCIGF: www.ncigf.org general information on P & C insolvencies



Coming Soon.....

Refresh of 2006 NAIC White Paper on Large Deductible Programs