

FOR IMMEDIATE RELEASE**National Conference of Insurance Guaranty Funds (NCIGF)**

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NCIGF AND NAIC COLLABORATE TO TACKLE COMPLICATIONS WHEN LARGE DEDUCTIBLE INSURANCE POLICIES ARE PART OF A LIQUIDATED ESTATE

Indianapolis, IN, March 1, 2017 – High deductible Workers' Compensation products, a critical cost-control tool for insurance customers, can pose complex and expensive problems when an insurer goes into liquidation.

That key finding is part of the newly released National Association of Insurance Commissioners' (NAIC) 2016 Workers' Compensation Large Deductible Study. The study identified challenges that result when large deductible insurance policies are part of a failed company's policy portfolio.

The National Conference of Insurance Guaranty Funds (NCIGF) was a significant contributor to the research and drafting of the report, which includes an examination of issues related to large deductible and Professional Employer Organization (PEO) programs and how they impact today's resolution system.

Five insolvencies dating back to 2009 involved large deductible policies. These guaranty fund payouts totaled \$734 million; however, guaranty funds recovered less than \$24 million from insolvent estates through August 2016. The remaining \$710 million came from assessments on solvent insurers, with those costs passed along to insurance policyholders or taxpayers.

Included in the identified challenges are lack of statutory guidance for handling collateral and collections related to these products, poorly capitalized programs and co-mingling of deductible collections and security with the general assets of insolvent insurance companies. Lack of legal clarity defining the rights and obligations of the various involved parties, including guaranty funds, can bring expensive litigation that could potentially be avoided, according to the report.

The study highlights significant resolution issues and outlines strategies for addressing them. Its recommendations include:

- Enacting legislation establishing financial requirements for large deductible Workers' Compensation coverage
- Recommending the NAIC Financial Condition (E) Committee develop risk-based capital standards associated with large deductible business
- Requiring insurer staff to evaluate creditworthiness of policyholders, and
- Enacting legislation that governs the rights and duties of the various parties in an insolvency context.

The NCIGF's contribution to the study is drawn from member state guaranty association experience and extensive work on the topic by the NCIGF's Legal and Public Policy Committees, which brings expertise from the organization's member guaranty funds. NCIGF Senior Vice President—State and Regulatory Affairs, Barbara Cox, led a work group that focused on the study's insolvency-related discussion.

The study is available as a free download from the NAIC Publications Department by [clicking here](#).

The fruit of the NAIC/International Association of Industrial Accident Boards and Commissions (IAIABC) Joint (C) Working Group of the Property and Casualty (C) Committee, the 62-page study supplements a similar study on large deductible programs prepared by the NAIC in 2006. The new study enhances and extends the scope of the earlier paper by exploring how these programs have impacted the resolution system since the 2006 study was published.

The study looks anew at the receivership community's challenges in addressing the downsides of large deductible and PEO programs, and the significant costs the programs bring to related insolvencies. It also gives regulators and receivers suggestions for specific tools that permit enhanced oversight of the programs and guidance for dealing with a variety of insurance company insolvency issues, now and in the future. At the same time, the study acknowledges the programs as an important and valued part of the modern insurance marketplace.

Adopted at the Workers' Compensation Task Force level at the NAIC 2016 Summer Meeting and by the NAIC overall later in the year, the study fulfills the 2016 charges of the NAIC/IAIABC Joint (C) Working Group Property and Casualty (C) Committee to study issues of mutual concern to insurance regulators and the (IAIABC).

The effort to bring all the parties together to update the 2006 NAIC Workers' Compensation Large Deductible Study raises awareness of large deductible issues in general, resulting in a more thoughtful, comprehensive approach to addressing problems related to recent Workers' Compensation company insolvencies.

The completion of the study is an outstanding example of the benefits that arise when the guaranty fund, and regulatory and receivership communities come together to collectively analyze issues and work collaboratively to address them, said Roger H. Schmelzer, president and CEO of the NCIGF.

"Issues associated with large deductible and PEO programs underscore the need for greater regulatory oversight as part of a contemporary insurance resolution system," said Schmelzer. "The NCIGF appreciates the openness of stakeholders to entertain innovative solutions. We are pleased to be part of this thoughtful and exhaustive study.

“This joint effort shows the positive outcomes that result when the guaranty association and regulatory and receivership communities work together to identify and address solutions. Such cooperation strengthens and improves the insurance industry and resolution system, and safeguards the insurance consumer. Thanks go to members of resolution systems overall – receivers, regulators and guaranty funds alike – whose efforts and dedication brought this project to completion.”

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The NCIGF is a nonprofit association incorporated in December 1989 that provides national assistance and support to the property and casualty guaranty funds located in each of the 50 states and the District of Columbia.