

June 15, 2010

Ladies and gentlemen:

We are pleased to provide the second in a series of reviews of property and casualty guaranty fund expenses. The information in this review covers the period from 2005 through 2007. The primary purposes of these reviews are:

- 1) To enhance the GFs' knowledge of their overall operating expense structure, and
- 2) To compare the operating expense performance of the GFs to the insurance industry.

This review reveals that guaranty fund expenses compare favorably to those of industry. Results indicate that the operating expenses of the GFs are lower than the insurance industry for Loss Adjustment Expenses ("LAE")<sup>1</sup> and General Expenses<sup>2</sup> for 2005-2007.

The following table summarizes the latest comparison of operating expense measures:

**Comparison of Operating Expense Measures  
2005-2007**

	<b>Loss Adjustment Expenses<sup>1</sup></b>	<b>General Expenses<sup>2</sup></b>
<b>Guaranty Funds</b>	20.3%	3.6%
<b>Insurance Industry</b>		
Net – Adjusted	26.7%	11.5%
Direct - Adjusted	24.5%	9.7%

Compared to the original study, the GF operating expense ratios have moved lower while the industry ratios have increased, resulting in a more favorable comparison from the perspective of the GFs. As

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<sup>1</sup> LAE includes all expenses associated with managing claims, including Defense Cost and Containment ("DCC") and Adjusting and Other ("AO") payments. Using previous NAIC terminology, LAE includes allocated ("ALAE") and unallocated ("ULAE") loss adjustment expenses.

<sup>2</sup> General Expenses (i.e., administrative expenses) include all operating expenses other than LAE, acquisition expenses (e.g., advertising, commissions/brokerage, marketing, new business underwriting, policy issuance, etc.), taxes, licenses, fees, and investment expenses.

discussed in the study, it appears that the reduction in overall GF operating ratios between the two expense reviews is primarily driven by a shift in claims paid by line of business. The following table compares the LAE ratios for the two time periods:

Comparison of LAE Ratios

	<b>2001-2004</b>	<b>2005-2007</b>
<b>GFs</b>	23.8% (22.5% <sup>4</sup> )	20.3%
<b>Insurance Industry:</b>		
Net – Adjusted	20.6%	26.7%
Direct – Adjusted	18.0%	24.5%

In contrast to the property/casualty industry, which is bound by statutorily-imposed uniform accounting and financial reporting rules, this study seeks to “bridge” the various financial reporting practices that pertain to the individual state-based guaranty fund operations to achieve uniformity often elusive where no central uniform accounting and financial reporting rules exist. In the end it was the team’s ability to build the bridge to assemble available data that permitted the comparison to industry.

Independent actuary Kevin Robbins of Actuarial, Insurance and Management Services, Inc. (AIM) was retained by the NCIGF board of directors to develop the methodology for the project which required development of readily available data expense measures to enable evaluation of guaranty fund expense levels associated with the guaranty funds’ principal activity of the adjustment and payment of claims. To provide a credible comparison with industry, Mr. Robbins developed ratios of expenses to claims amounts for both guaranty funds and industry. While the claims function of the guaranty funds and industry are similar, there are many fundamental differences in their operations and responsibilities that make a “pure” comparison complicated. Adjustments were made where possible to help reconcile these fundamental differences. The actuarial work performed by Mr. Robbins was formally peer-reviewed by another actuary.

The study’s guaranty fund data is “raw” information received from the various guaranty funds -- any adjustments made were only to industry data; guaranty fund expenses included all expenses for the period in question, even expenses that were not charged to insolvencies.

In considering this report, it is important to note a number of factors that impact a comparison of guaranty fund expenses to industry expenses. These factors relate to the differences in the fundamental purposes for the two groups (for-profit vs. not-for-profit), the differences in the nature of their operations (claims as part of a larger enterprise vs. claims as the primary statutory purpose), the unique provisions of guaranty fund laws and the different characteristics of the claims populations for which each is responsible.

Thank you for your attention to this study. We welcome the responsibility that goes with meeting our statutory obligations to policyholders, claimants and taxpayers.

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Sincerely,

Roger H. Schmelzer  
President & CEO

**National Conference of Insurance Guaranty Funds**

**REVIEW OF PROPERTY AND CASUALTY INSURANCE  
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June 29, 2010

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***INTRODUCTION***

The National Conference of Insurance Guaranty Funds (“NCIGF”) engaged Actuarial, Insurance and Management Services, Inc. (“AIM”) to conduct an operating expense review of the property and casualty insurance guaranty funds (“GFs”). This project represents an update to the first GF expense review, which was published in 2007 and included data for 2001-2004. This update includes data for 2005-2007. The primary purposes of these reviews are:

- 1) To enhance the GFs’ knowledge of their overall operating expense structure,  
and
- 2) To compare the operating expense performance of the GFs to the insurance industry.

***EXECUTIVE SUMMARY***

One purpose of the original GF expense review based on data for 2001-2004 was to identify and/or develop valid comparative measures for assessing the operating expense performance of the GFs as compared to the insurance industry. This was necessary due to significant environmental differences between how the GFs and the insurance industry conduct and account for their respective businesses. These differences are discussed later in this report. The comparative measures developed for the original review are also used for this update.

The approach to this updated expense review based on data for 2005-2007 is consistent with the original study. It involves adjusting the insurance industry data in

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order to make the resulting operating expense measures more comparable to those of the GFs. The Technical Appendix provides details on these adjustments. The following table summarizes the latest comparison of operating expense measures:

### Comparison of Operating Expense Measures 2005-2007

	LAE <sup>1</sup>	General <sup>2</sup>
<b>GFs</b>	20.3%	3.6%
<b>Insurance Industry</b>		
Net <sup>3</sup>	21.9%	10.9%
Direct <sup>3</sup>	22.0%	9.5%
Net – Adjusted	26.7%	11.5%
Direct – Adjusted	24.5%	9.7%

Note: Ratios are relative to claim amounts.  
Ratios are shown to one decimal place; actual results are not rounded.

These results indicate that the operating expenses of the GFs are lower than the insurance industry for Loss Adjustment Expenses (“LAE”)<sup>1</sup> and General Expenses<sup>2</sup> for 2005-2007.

Compared to the original study, the GF operating expense ratios have moved lower overall while the industry ratios have increased, resulting in a more favorable

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<sup>1</sup> LAE includes all expenses associated with managing claims, including Defense Cost and Containment (“DCC”) and Adjusting and Other (“AO”) payments. Using previous NAIC terminology, LAE includes allocated (“ALAE”) and unallocated (“ULAE”) loss adjustment expenses.

<sup>2</sup> General Expenses (i.e., administrative expenses) include all operating expenses other than LAE, acquisition expenses (e.g., advertising, commissions/brokerage, marketing, new business underwriting, policy issuance, etc.), taxes, licenses, fees, and investment expenses.

<sup>3</sup> “Direct” represents the results from policies issued by the insurance industry without adjustment for the effects of reinsurance. “Net” represents the Direct results adjusted for the effects of assumed and ceded reinsurance.

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comparison from the perspective of the GFs. The GF LAE ratio for 2001-2004 was 23.8% (22.5% on an adjusted basis<sup>4</sup>) compared to 20.3% for 2005-2007, whereas the GF general expense ratio was 4.9% (3.2% on an adjusted basis<sup>4</sup>) for 2001-2004 compared to 3.6% for 2005-2007. As discussed later, it appears that the reduction in overall GF operating ratios between the two expense reviews is primarily driven by a shift in claims paid by line of business (See Shift in GF Claims by Line of Business on page 6).

The following two tables compare the operating expense ratios for the two time periods:

**Comparison of LAE Ratios**

	2001-2004	2005-2007		2001-2007
<b>GFs</b>	23.8% (22.5% <sup>4</sup> )	20.3%		22.3% (21.5% <sup>4</sup> )
<b>Insurance Industry</b>				
Net	19.6%	21.9%		20.6%
Direct	18.9%	22.0%		20.2%
Net – Adjusted	20.6%	26.7%		23.4%
Direct – Adjusted	18.0%	24.5%		20.9%

Note: Ratios are relative to claim amounts.  
Ratios are shown to one decimal place; actual results are not rounded.

<sup>4</sup> In the collection of data for this update of the GF expense review, we received some clarifications that changed the GF operating expense ratios reported for the original review. The revised ratios (shown in parenthetically in this table) do not change the overall conclusions of the original review.

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**Comparison of General Expense Ratios**

	2001-2004	2005-2007		2001-2007
<b>GFs</b>	4.9% (3.2% <sup>4</sup> )	3.6%		4.4% (3.4% <sup>4</sup> )
<b>Insurance Industry</b>				
Net	9.0%	10.9%		9.9%
Direct	7.8%	9.5%		8.5%
Net – Adjusted	9.9%	11.5%		10.5%
Direct – Adjusted	7.7%	9.7%		8.5%

Note: Ratios are relative to claim amounts.  
 Ratios are shown to one decimal place; actual results are not rounded.

As noted earlier, there are significant differences between the operating environments of the GFs and the industry. Such differences include the fundamental purpose for the two industries, the nature of their operations, the unique provisions of the GF laws, and the characteristics of the claim populations. AIM adjusted the insurance industry results (shown as “Adjusted” in the tables above) to reflect a claim environment more typical of the GFs, thereby permitting a more valid comparison to the GF data (which is unadjusted).

AIM was not able to adjust for all environmental differences between the GFs and the insurance industry. The majority of the unquantified differences create a high-side bias in the GF results for LAE (see Exhibit 1). This is because most of the differences likely produce relatively higher GF loss expense payments and/or lower GF claim payments, any combination of which would cause the LAE ratio for the GFs to be higher than the insurance industry. If this assessment is correct, and if data were available to develop adjustments for these differences and eliminate the bias, those adjustments would increase the adjusted industry ratios for LAE. Similarly, the unquantified differences create a high-side bias in

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the insurance industry results for General Expenses, which if adjusted would lower the adjusted industry ratios, making them closer to the GF ratio for General Expenses.

WORKERS COMPENSATION – The GF experience is dominated by claims for Workers Compensation insurance, which represents over 50 percent of all GF claims for 2005-2007. The LAE comparative measures for Workers Compensation are summarized in the following table<sup>5</sup> along with the corresponding results from the original expense review.

**Comparison of LAE Ratios  
 Workers Compensation**

	2001-2004	2005-2007		2001-2007
<b>GFs</b>	18.3% (17.0% <sup>4</sup> )	19.8%		18.9% (18.1%)
<b>Insurance Industry</b>				
Net	20.0%	23.2%		21.4%
Direct	17.4%	21.3%		19.0%
Net – Adjusted	16.1%	20.2%		17.9%
Direct – Adjusted	14.0%	18.5%		15.9%

Note: Ratios are relative to claim amounts.  
 Ratios are shown to one decimal place; actual results are not rounded.

These results indicate that the GF LAE ratios are similar to the adjusted industry LAE ratios (AIM believes the adjusted industry ratios are the best comparative measures to GF results). The GF and industry LAE ratios are both higher for 2005-2007 than

<sup>5</sup> The GF administrative expenses provided for this review were not allocated by line of business, so the expense comparison by line of business focuses on LAE.

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the original review, although the increase was smaller for the GFs than for the industry.

It is interesting to note that the adjusted insurance industry results for Workers Compensation are materially lower than the unadjusted results. This is driven by the adjustment to reflect the GFs' older claim population. Based on insurance industry data, the expenses paid within the first year of a Workers Compensation claim are much higher relative to paid claims than the on-going future expenses relative to future claim payments. This is apparently due to the high initial costs of claim investigation and handling that are not consistently repeated in future years for claims that remain open. Thus, when adjusting the insurance industry data to reflect an older GF claim population for Workers Compensation, the higher initial expense level is removed and the resulting insurance industry measures are reduced.

OTHER LINES OF BUSINESS – Comparative results for the GFs' other main lines of business are shown in Exhibit 2. The LAE ratios for the GFs are higher than the insurance industry for General Liability and Automobile. This result is consistent with the original expense review and is likely driven by the "Exhaustion" provision<sup>6</sup> in GF laws, which produces higher GF ratios for these coverages than would exist in the absence of these provisions. The LAE ratios for the GFs are lower than the range of insurance industry results for the other major GF lines of business. AIM believes that if adjustments could be made to reflect all environmental differences between the two industries, the comparative results would reflect more favorably towards the GFs.

SHIFT IN GF CLAIMS BY LINE OF BUSINESS – The change in the GF claim distribution by line of business between the original expense review and this update is noteworthy (see Exhibit 3). As mentioned earlier, over 50% of the GF claims in

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<sup>6</sup> Exhaustion provisions require that insurance coverage provided by other solvent insurers must first be exhausted before GFs are obligated to pay claims (see Exhibit 1, Item 9).

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2005-2007 were associated with the Workers Compensation line of business. In comparison, Workers Compensation claims represented almost 70% of GF claims in the original expense review (2001-2004). While still the dominate line of business by a wide margin, Workers Compensation claims have less influence on the overall total GF results in this update than in the original expense review.

The second and third largest lines of business for the GFs in 2005-2007 were Homeowners (14.5%) and Commercial Multiple Peril (12.5%), which represented less than 4% of claims in 2001-2004 on a combined basis. The final large shift in percentage of GF claims between the two expense reviews was associated with the Automobile lines of business, where the percentage of GF claims dropped from 9.2% in the original expense review to 4.3% in the current update.

This shift in claims by line of business contributes to the more favorable comparison of the GF operating ratios to industry in this expense review versus the original expense review because greater weight is given to lines of business where the GF ratios are lower and compare most favorably to industry (e.g., Homeowners, Commercial Multiple Peril; see discussion in the previous section). The GF LAE ratios for this expense review update would be approximately three points higher if the GF distribution of claims by line of business were the same as the original expense review.

ORGANIZATION OF GF EXPERIENCE – AIM organized the GF experience for 2005-2007 into a form that permitted a direct comparison to insurance industry results, as shown in the following table:

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**GF Operating Expense Measures  
 2005-2007**

**Administrative Expenses**

Salaries & Benefits: Management	0.4%
Salaries & Benefits: Other Employees	0.8%
Legal (Non-claim)	0.3%
All Other Administrative Expenses	2.2%
<b>Total (General Expenses)</b>	<b>3.6%</b>

**Claim-Related Expenses**

Salaries & Benefits: Management	0.1%
Salaries & Benefits: Other Employees	2.8%
Legal & Other (Claim-Related)	1.4%
Total (Unallocated LAE)	4.3%
Allocated LAE	16.0%
<b>Total LAE</b>	<b>20.3%</b>

Note: Ratios are relative to claim amounts.  
 Ratios are shown to one decimal place; actual results are not rounded.

Exhibit 4 provides a more detailed breakdown of the GF claims and expenses.

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The remainder of this report discusses the development of these results in greater detail, including important considerations in comparing the two industries, the basis for comparison, adjustments made to enhance the comparisons, and data considerations. In addition, a Technical Appendix accompanies this report to provide a more thorough illustration of certain calculations underlying these results. It is important to bear in mind that while the organization and adjustment of data in this review may involve complex calculations, the resulting figures are still fairly high-level estimates and do not quantify or reflect many important differences between the operations of the GFs and the insurance industry.

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***CONSIDERATIONS IN COMPARING THE TWO INDUSTRIES***

In order to properly compare operating expense measures between the GFs and the insurance industry, it is important to understand the significant differences in how the two groups conduct business. A fundamental function for both insurance companies and GFs is their ability to appropriately pay claims. Beyond that, it is somewhat easier to find differences between the industries than similarities.

These differences begin with the fundamental purpose for the two industries and continue through the nature of their operations, the characteristics of the claim populations, and the unique provisions of the GF laws. Exhibit 1 supplements the following discussion by providing a detailed listing of the differences between the GFs and the insurance industry.

INSURANCE INDUSTRY – For the most part, the insurance industry is comprised of businesses that pool insurable risk in order to generate a profit. Most insurance companies specialize in underwriting certain types of risk, and thus focus their operations toward obtaining and servicing such business in a way that creates competitive advantage, efficiency and profit. One way in which the insurance industry manages its financial risk is through reinsurance and diversification among selected lines of business.

While both the GFs and the insurance industry are involved in managing and settling insurance claims, the insurance industry also routinely performs many functions that have no counterpart in the GFs. For example, the insurance industry incurs material acquisition expenses<sup>7</sup> associated with the solicitation of business. The insurance industry also incurs expenses for taxes, licenses and fees that are not applicable to

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<sup>7</sup> Acquisition expenses include advertising, commissions/brokerage, marketing employees, new business processing (e.g., underwriting, policy issuance, etc.) and related systems, etc.

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the GFs. While both industries generate various general (i.e., administrative) expenses such as accounting, actuarial, legal, management systems, etc., the insurance industry general expenses support a broader scope of operations than the GFs.

The insurance industry is regulated by state insurance departments, who work together in many areas through the National Association of Insurance Commissioners (“NAIC”). One important area impacted by the NAIC is accounting practices. The NAIC promulgates statutory accounting principles and the annual reporting of detailed financial statements known as Annual Statements. The insurance departments enforce conformity with these accounting standards pursuant to state law through a coordinated system of financial examinations, and further require annual audit opinions from independent auditors. Many insurance companies also report publicly according to generally accepted accounting principles (“GAAP”). The result of the above is that the insurance industry reports financial information using a uniform set of accounting rules and a common financial statement format.

GUARANTY FUNDS – The purpose of GFs is to protect certain segments of the insured public against the financial consequences of insurance company insolvencies. GFs are state-mandated organizations that pay the claims of insolvent insurance companies according to provisions set forth in state law. GFs operate on a breakeven basis by balancing the aggregate amount of GF claim payments and operating expenses with the various sources of GF funding<sup>8</sup>.

The GFs are primarily in the business of paying insurance claims, but the environment in which this is performed is much different than the insurance industry.

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<sup>8</sup> Sources of GF funding include recoveries from the insolvent estate, statutory recoveries, assessments charged to the insurance industry, investment income, etc.

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For example, GFs are not able to maintain consistent claims operations like their counterparts in the insurance industry, since the types and volumes of claims can vary substantially over time depending on the nature and number of insolvencies being managed. GFs must incur expenses to maintain minimum staffing levels, equipment and systems during periods of limited claim activity and upon notification of an insolvency, be able to quickly transform into a fully functional claims operation capable of handling claims for any covered line of business. This is similar in nature to the preparedness required of a fire station.

The characteristics of the GF claim population are also quite different than that of the insurance industry. Claims presented to the GFs are the outstanding claims from insolvent insurers. Since these companies often go through a period of run-off and/or rehabilitation before being declared insolvent, the outstanding claim population is generally comprised of older claims that often have complicating factors. In addition, the claims may have been poorly managed near the time of insolvency and may also be entangled in problematic claim systems, all of which complicate the GF claim management effort.

Furthermore, while the insurance industry pays claims according to the terms of its policy contracts, GFs must also overlay additional conditions and obligations mandated by the GF laws. For example, most GF laws exclude a number of coverages, such as Accident and Health, Financial and Mortgage Guaranty, Fidelity, Surety, Reinsurance, etc. For covered claims, the GF laws often limit certain claim payments below the terms of the underlying insurance policies by excluding the claims of policyholders with high net worth, requiring exhaustion of other insurance, imposing deductibles, applying “per claim” limits, excluding punitive damages, etc. These additional conditions and obligations impact the review and administrative costs for the GF paid claims.

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The GFs report their audited financial results on a regular basis to the state insurance departments, the insolvent estates, and the GF boards of directors. The accounting procedures for the GFs are generally not specified by statutes and thus may vary from state to state.

***BASIS FOR COMPARISON***

One of the objectives for the original expense review of data from 2001-2004 was to develop tools and methods for meaningful comparisons of the expense structures for the GFs and insurance industry. This section of the report is reprinted from the original expense review report to facilitate the reader's understanding of this expense review update.

OPERATING EXPENSE MEASURES – The most common operating measures for the insurance industry are operating ratios to premium and rates of return, neither of which is pertinent to the GFs since they do not have premium, equity or policyholder surplus to use in developing such measures. Thus, it was necessary to develop measures that permit a valid comparison between the GFs and the insurance industry.

Claims amounts (i.e., losses) seem to be the best available base for comparative measures between the GFs and the insurance industry. As discussed earlier, if the insurance industry were to account for GF operating expenses, they would likely segregate them into two categories: LAE and General Expenses.<sup>9</sup> AIM's approach involves developing ratios of LAE and General Expenses relative to claim amounts

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<sup>9</sup> See page 2, footnotes 1 and 2 for definitions of LAE and General Expenses.

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for both industries, making adjustments as necessary to facilitate a valid comparison of results. Other types of expenses incurred by the insurance industry are excluded from this comparison<sup>10</sup>.

Another base considered for the denominator of the comparative ratios was claim counts. The insurance industry reports claim counts in Schedule P of their statutory Annual Statements. However, there is no uniform basis of reporting claim counts for the insurance industry (e.g., depending on the insurance company, counts may represent accident occurrences, claimant counts, cause of loss counts, etc.). Thus, it is not possible to define GF claim counts in a way that enables an objective comparison to the insurance industry.

DATA CHARACTERISTICS – Most GF acts provide coverage of unearned premium claims, where the policyholder makes a claim for the unearned premium associated with their policy being terminated due to the insurance company's insolvency. The GFs incur material expenses (relative to claim payout) managing unearned premium claims. Thus, it is appropriate to include unearned premium claim payments along with traditional policy claim payments when calculating the expense ratios for the GFs.

One of the complicating factors in comparing the GFs to the insurance industry is reinsurance. Since the GFs do not participate in the reinsurance of the insolvent insurer, one might conclude that the direct (before reinsurance) experience of the insurance industry should be used in comparisons with the GFs. On the other hand, the various claim limitations contained in the GF laws have similar effects on the operating expense measures as reinsurance (i.e., adding expenses and/or reducing

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<sup>10</sup> Insurance industry expenses excluded from this comparison include acquisition; taxes, licenses and fees; and investment expenses. See page 9, footnote 7 for an expanded definition of acquisition expenses.

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claim amounts), suggesting that the net (after reinsurance) experience of the insurance industry might be better for comparison purposes. AIM believes that the most appropriate comparative data lies somewhere between the direct and net experience of the insurance industry. We utilize both net and direct insurance industry data in this analysis to compare with the GF experience.

Data availability is another consideration in developing comparative expense ratios for the GFs and the insurance industry. One of the objectives for this review is to utilize data that is readily available. Reflecting on the earlier discussion of ***CONSIDERATIONS IN COMPARING THE TWO INDUSTRIES***, it is also important for the data to be available by line of business and reflect a refined definition of expenses. The Insurance Expense Exhibit (“IEE”) satisfies these objectives for the insurance industry. It is the only readily available data source for the insurance industry that contains a refined breakdown of expenses and claims amounts by line of business on both a net and direct basis.

The IEE data is reported on an incurred basis, whereas the review data for the GFs represents paid amounts. AIM combined the data for the three-year review period to help minimize potential distortions associated with comparing paid expense ratios to incurred expense ratios. While it is desirable to have both sets of data on a comparable basis of accounting, AIM believes the potential distortion associated with this difference does not impact the integrity of the comparison or the results of this review. We confirmed this by estimating insurance industry paid amounts for the review period (calendar years 2001-2004) from Schedule P data, finding that the paid LAE ratio for the insurance industry was only 0.5 percent higher than the incurred LAE ratio. Considering the limitations associated with estimating insurance industry paid amounts from Schedule P, AIM believes its use of IEE data is preferable and produces valid comparative results.

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***ADJUSTMENTS TO ENHANCE COMPARISONS***

In comparing LAE and General Expense ratios between the two industries, it is important to give consideration to the various operational differences discussed earlier and shown in Exhibit 1. AIM adjusted the reported insurance industry results to reflect a claim environment more typical of the GFs, making the resulting ratios more comparable. The Technical Appendix to this report describes these adjustments in detail and readers should refer to the Technical Appendix for additional information on the adjustments and how they were applied.

Using the available information, it is not currently possible to adjust for the effects of all differences between the GFs and the insurance industry. Exhibit 1 describes the more significant environmental differences, identifies whether adjustments were made, and includes a subjective assessment of any bias that might remain in the operating expense measures. Of the sixteen differences identified in Exhibit 1, AIM made adjustments to the analysis of the insurance industry data for six items. Most of the unadjusted items result in GF ratios that are overstated in comparison to the insurance industry ratios (i.e., if it were possible to make an adjustment, the GF ratios would compare more favorably to the insurance industry).

LINE OF BUSINESS – One important adjustment that was made neutralizes the impact of different claim distributions by line of business. Exhibit 5 shows the distributions of claims for the two industries. The most notable difference is Workers Compensation, which represents over 50 percent of total claims for the GFs but less than 10 percent of total claims for the insurance industry. Since expenses (especially LAE) can vary materially by line of business, the overall expense ratios for the GFs are skewed towards Workers Compensation much more so than the industry.

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The adjustment for line of business is accomplished by weighting insurance industry results together using the GF claim distribution by line of business. The resulting ratio represents an estimate of the insurance industry expense level assuming they handled the same mix of claims (in terms of lines of business) as the GFs. For example, the adjusted ratios for the insurance industry reflect a 52.5 percent weight applied to its Workers Compensation results, which replicates the GF composition of Workers Compensation claims.

AGE OF CLAIM POPULATION – Another important adjustment is made to reflect the older claim population of the GFs. As noted earlier, GF claims are mostly comprised of the outstanding claim inventory of insolvent insurers. In contrast, roughly half of the claims paid by the insurance industry each year represent claims that were first reported in that year.

The difference in age of claim population has implications for the relationship between LAE and claim amounts. For many lines of business, it is relatively more expensive to manage claims that remain outstanding for long periods of time. However, the opposite is also true for certain lines of business where the initial investigation and/or legal expenses occur well in advance of claim payment.

AIM assumed that the age of claim distribution for the GFs was one year older than the insurance industry in the aggregate. This assumption was based on AIM's judgment considering that many insolvent insurers go through a period of run-off and/or rehabilitation before being declared insolvent, thereby significantly reducing the percentage of total GF claims that are paid within one year of occurring. AIM utilized insurance industry data from Schedule P to derive factors that adjust the insurance industry LAE measures to reflect the older claim population assumed for the GFs. These calculations are shown in the Technical Appendix to this report. A

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summary of these adjustments for the major GF lines of business is shown in Exhibit 6.

Using the Workers Compensation line of business as an example, Exhibit 6 shows that the ratio of LAE to claim amounts for the insurance industry is reduced by 13.0 percent due to the adjustment for the age of claim population. This means that the insurance industry incurs a proportionately large amount of expense in the initial year of claim occurrence for Workers Compensation, and relatively lower amounts of expense to continue paying these claims over future years. Since the GFs pay existing claims over future years, it makes sense to adjust the reported LAE measures for the insurance industry downward to permit a more “apples-to-apples” comparison of the two industries.

NET WORTH PROVISIONS – We also made an adjustment intended to help reflect the impact of net worth provisions in some GF laws. The net worth provision generally means that claims for policyholders with high net worth are ultimately not covered by the GFs. The typical net worth provision requires that the claim first be paid by the GF, with the policyholder then obligated to reimburse the GF for such payments. These provisions affect the comparative ratios for the GFs in two ways. First, additional expenses are incurred in implementing net worth provisions that are unique to the GFs. Second, the impact of these provisions is to reduce the claim amounts. Both of these effects, additional expenses along with reduced claim amounts, serve to increase the ratio of expenses to claim amounts for the GFs.

Data is not currently available to perform a completely objective adjustment for net worth provisions. We relied on the judgment of a senior claims manager involved with the GFs for several states to develop estimates of the effect of net worth provisions. Specifically, it was assumed that net worth provisions reduce GF claim

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amounts by 10 percent for Medical Malpractice, 5 percent for General Liability, and 0 percent for other lines of business. Since several GF laws do not include net worth provisions, AIM estimated that the overall impact of these net worth assumptions on a countrywide basis would be diluted to 5.2 percent for Medical Malpractice claims and 1.1 percent for General Liability claims.

These percentages are applied to the insurance industry claim amounts so that the resulting expense ratios will be more directly comparable to the GF expense ratios. The overall net worth adjustment is fairly minimal since Medical Malpractice and General Liability represent just 15.3 percent of all GF claims. It should be noted that since conservative assumptions were used (i.e., net worth provisions actually affect other coverages to some extent, including the dominant Workers Compensation coverage), the adjustment made for net worth does not likely reflect the total actual impact of these provisions on all GF claims.

***DATA CONSIDERATIONS***

INSURANCE INDUSTRY DATA – The insurance industry data used in this review was obtained from the A.M. Best Company. The primary source of data reflected in the comparative ratios is the Insurance Expense Exhibit (which is filed with the statutory Annual Statements) for 2005-2007 as compiled by A.M. Best. The Insurance Expense Exhibit is unique in providing a refined classification of expenses by line of business for both net (after reinsurance) and direct (before reinsurance) results.

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Schedule P from the statutory Annual Statements is used to develop the adjustments for age of claim population. The calculation of these adjustments is shown in the Technical Appendix.

GF DATA – The GF experience used in this review was provided in response to a special call for claims and expense data for 2005-2007, described by the following items:

1. Summary data from the claims system organized by annual statement line of business or by UDS coverage code for each year.
2. Summary claims data from outside the claims system. This mostly consisted of unearned premium claims, large deductible recoveries, and other claims-related transactions that were not made through the claims system.
3. Summary data on expenses outside the claims system that breaks out claims-related and investment expenses from administrative expenses.
4. Reconciliation of the data reported in (1), (2) and (3) to the GF financial statements.
5. Information and data on large deductible recoveries.
6. Copies of the GF financial statements for each year.

The GF claims, loss adjustment and administrative expenses include all paid amounts defined on a “gross” basis with respect to estate recoveries (i.e., the GF paid amounts have not been reduced by distributions and/or recoveries from insolvent estates).

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DATA VALIDITY – AIM relied on the data provided for this review as described above. AIM reviewed the reconciliation exhibits, compared the submitted data to GF financial statements where possible, and made adjustments to the submitted data based on discussions with GF staff. AIM did not audit the data or otherwise validate its accuracy. Any errors in the data provided for this review could impact the reported results and conclusions.

***LIMITED DISTRIBUTION AND USE***

This report has been prepared for the use of the NCIGF and its membership. In the event that this report is shared with third parties, the report must be provided in its entirety and AIM must be informed of this additional distribution. AIM recommends that any party receiving a copy of this report have their own experts review the report to ensure that the party fully understands the nature of the analysis and the associated limitations.

AIM will be available to answer questions regarding this review if authorized to do so by the NCIGF.

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***CLOSING***

It has been a pleasure working with the NCIGF and its membership on this challenging project. Several individuals with the NCIGF and its membership put forth significant effort in order to refine the data and results provided in this report. That effort is both recognized and appreciated by AIM.

Respectfully submitted,

*e/ Kevin B. Robbins*

Kevin B. Robbins, FCAS, MAAA  
Consulting Actuary

National Conference of Insurance Guaranty Funds  
**REVIEW OF GUARANTY FUND EXPENSES**

**EXHIBITS**

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## National Conference of Insurance Guaranty Funds Review of Guaranty Fund Expenses

### Significant Differences Between Guaranty Funds and the Insurance Industry

	Description	Adjustment Made: Y/N	Difference Produces A High-Side Bias *	
			LAE	General Expense
1.	Insurance industry data includes payments and expenses of insurance funds that are run by state agencies.	Yes (Excluded)		
2.	Insurance industry expenses includes certain quantifiable items for activities with no GF counterpart (e.g., advertising, commissions/brokerage, marketing employees, new business processing (e.g., underwriting, policy issuance, etc.) and related systems, taxes, licenses, fees).	Yes (Excluded)		
3.	General expenses for insurance industry include unquantifiable expenses for certain activities with no GF counterpart (e.g., certain actuarial, accounting, legal and underwriting functions and related systems).	No		Industry
4.	The insurance industry uses reinsurance to manage excess exposures; GFs do not receive benefit of insolvent insurer's reinsurance, nor do GFs maintain their own reinsurance cover.	Insurance industry data is shown for both net and direct results		
5.	Difference in distribution among lines of business. (e.g., While insurance industry payments on Workers Compensation claims are less than 10% of total payments, GF payments on Workers Compensation claims are almost 70% of total payments). In order for there to be a meaningful comparison, it was necessary to re-weight insurance industry data according to GF line of business distributions, so that comparisons were not distorted by different mixes of business.	Yes		
6.	Age of claim population. Different lines of business tend to have different expense characteristics depending on the age of the claim. GFs typically take over older claims. It was therefore important to adjust insurance industry data to remove the effect of, for example, first year claim expenses, in order for insurance industry expenses to be more similar to those of GFs.	Yes		

\* The described difference produces a high-side bias (i.e., an overstated ratio) for the GFs or insurance industry. For example, item (3) causes an overstated general expense ratio for the insurance industry relative to the GFs.

## National Conference of Insurance Guaranty Funds Review of Guaranty Fund Expenses

### Significant Differences Between Guaranty Funds and the Insurance Industry

	Description	Adjustment Made: Y/N	Difference Produces A High-Side Bias *	
			LAE	General Expense
7.	"Net Worth" adjustment for Medical Malpractice and General Liability lines. GF statutes often contain provisions that limit the coverage for claims of high-net-worth insureds. These statutory provisions have the effect of reducing indemnity payments and increasing expenses. A conservative adjustment for the impact of net worth statutes was made for Medical Malpractice and General Liability lines of business.	Yes	GF	GF
8.	"Net Worth" adjustment for Workers Compensation and other lines. Data did not exist to permit a net worth adjustment for Workers Compensation (which comprises the vast majority of GF payments) or other lines.	No	GF	GF
9.	Adjustment for "Exhaustion" provisions. Data did not exist to estimate an adjustment for Exhaustion provisions. Exhaustion provisions require insurance coverage provided by other solvent insurers to first be exhausted before GFs are obligated to pay claims. Almost all GF laws contain these provisions, which have the effect of reducing indemnity payments and increasing expenses. This is a significant factor for General Liability and Automobile, but not for Workers Compensation.	No	GF	GF
10.	Adjustment for "Per Claim" limits. An adjustment for GF "Claim Caps" was also not possible. Almost all GF laws contain provisions that limit the amount per claim that a GF is obligated to pay (although most laws exclude Workers Compensation claims from this limitation). Similar to Net Worth and Exhaustion, these claims cap provisions have the effect of reducing indemnity payments and increasing expenses.	No	GF	GF

\* The described difference produces a high-side bias (i.e., an overstated ratio) for the GFs or insurance industry. For example, item (3) causes an overstated general expense ratio for the insurance industry relative to the GFs.

**National Conference of Insurance Guaranty Funds  
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**Significant Differences Between Guaranty Funds and the Insurance Industry**

			<b>Difference Produces A High-Side Bias *</b>	
	<b>Description</b>	<b>Adjustment Made: Y/N</b>	<b>LAE</b>	<b>General Expense</b>
11.	Cost of minimum staffing levels. GFs are required by law to promptly pay claims of insolvent insurers. This requires a minimum level of staffing that at times may not be commensurate with the inventory of unpaid claims being adjusted. This forces GF expenses to be higher when compared to the insurance industry.	No	GF	GF
12.	Other costs unique to GFs arising from statutory obligations. GFs are obligated by law to adjust and pay all covered claims, which come from the majority of property and casualty lines of business. In contrast, most insurers specialize in certain lines of business, which increases efficiencies and reduces insurance industry expenses. Furthermore, because of the nature of their statutory obligations, it is sometimes necessary for GFs to dramatically increase or decrease staffing levels in very short periods of time. This results in certain inefficiencies that otherwise would not exist. In addition, GFs often must litigate to enforce the various statutory provisions in the GF laws. The insurance industry does not have corresponding forces in play.	No	GF	GF
13.	Transition costs associated with insolvent insurer. For each new insolvency, the GFs incur costs to familiarize themselves with the operations and claim files of the insolvent company. Operations of insolvent insurance companies may not have been well managed, especially near the time of insolvency (e.g., risks may have been poorly underwritten; claims may not have been handled well and may have even been neglected, etc.). This can result in revisions of case reserves, and changes of claims counsel and other outside resources. These factors all increase the costs for the GFs relative to the insurance industry.	No	GF	GF

\* The described difference produces a high-side bias (i.e., an overstated ratio) for the GFs or insurance industry. For example, item (3) causes an overstated general expense ratio for the insurance industry relative to the GFs.

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Significant Differences Between Guaranty Funds and the Insurance Industry**

			<b>Difference Produces A High-Side Bias *</b>	
	<b>Description</b>	<b>Adjustment Made: Y/N</b>	<b>LAE</b>	<b>General Expense</b>
14.	GF expenses incurred prior to liquidation. It is sometimes necessary for GFs to incur expenses prior to being triggered by a liquidation order and paying claims. This may be necessary in connection with monitoring a troubled company, a company in runoff or a rehabilitation proceeding. These expenses are incurred even though the GF is not yet processing and paying claims. This causes overall GF expenses to be higher in relation to current GF claims activity as compared to the insurance industry.	No		GF
15.	Effects of lump sum settlements. Shortly following insolvency, it is common for claimants to accept discounted lump-sum settlements. This practice is less common for the insurance industry in general. This lowers overall claim amounts for the GFs relative to the insurance industry, thereby increasing the GF ratios.	No	GF	GF
16.	Difference in distribution among states. It seems likely that the distribution of claims by state varies between the GFs and the insurance industry, and that the ratio of expenses to claim amounts also varies by state. The insurance industry data required to make an adjustment for this potential difference is not available. The bias associated with this potential difference is unknown.	No	Unknown	Unknown

\* The described difference produces a high-side bias (i.e., an overstated ratio) for the GFs or insurance industry. For example, item (3) causes an overstated general expense ratio for the insurance industry relative to the GFs.

# National Conference of Insurance Guaranty Funds Review of Guaranty Fund Expenses

Exhibit 2

## Comparison of LAE Measures 2005-2007

	<b><u>GF Claim Distribution</u></b>	<b><u>GF LAE Ratio</u></b>	<b>Insurance Industry LAE Ratios</b>			
			<b><u>Net (After Reinsurance)</u></b>		<b><u>Direct (Before Reinsurance)</u></b>	
			<b><u>Actual</u></b>	<b><u>Adjusted</u></b>	<b><u>Actual</u></b>	<b><u>Adjusted</u></b>
Workers Compensation	52.5%	19.8%	23.2%	20.2%	21.3%	18.5%
Homeowners	14.5%	10.1%	17.7%	18.8%	16.0%	17.0%
Commercial Multiple Peril	12.5%	12.4%	30.6%	40.1%	27.5%	36.0%
General Liability	9.3%	42.3%	36.2%	38.8%	35.2%	37.8%
Medical Malpractice	6.0%	33.2%	65.3%	62.7%	57.6%	55.3%
Automobile	4.3%	27.1%	22.2%	18.8%	21.4%	18.1%

Note: Ratios are relative to claim amounts.

## National Conference of Insurance Guaranty Funds Review of Guaranty Fund Expenses

Exhibit 3

### Change in Guaranty Fund Claim Distribution 2005-2007 versus 2001-2004

	<b>Guaranty Fund Paid Claims</b>			
	<b>2005-2007</b>		<b>2001-2004</b>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Workers Compensation	\$ 2,304,462,765	52.5%	\$ 4,208,388,210	69.4%
Homeowners	635,951,400	14.5%	45,502,009	0.8%
Commercial Multiple Peril	546,927,235	12.5%	187,278,668	3.1%
General Liability	405,917,317	9.3%	494,548,629	8.2%
Medical Malpractice	263,570,827	6.0%	526,565,730	8.7%
Automobile	189,158,722	4.3%	556,544,472	9.2%

Note: Ratios are relative to claim amounts.

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Guaranty Fund Data**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2005 - 2007</u>
<b>Claims Inside of the Claims System <sup>1</sup></b>				
1 Indemnity Claims	\$ 1,507,133,427	\$ 1,740,250,428	\$ 1,186,825,935	\$ 4,434,209,790
2 Unearned Premium Claims	20,787,775	95,437,086	43,273,817	159,498,678
3 Recoveries	<u>(53,860,420)</u>	<u>(75,869,321)</u>	<u>(77,245,908)</u>	<u>(206,975,650)</u>
4 Total	\$ 1,474,060,781	\$ 1,759,818,194	\$ 1,152,853,844	\$ 4,386,732,818
<b>Claims Outside of the Claims System <sup>2</sup></b>				
5 Indemnity Claims	\$ 1,216,777	\$ 13,101,262	\$ 145,098,576	\$ 159,416,615
6 Unearned Premium Claims	11,624,920	15,192,110	7,019,612	33,836,642
7 Recoveries	<u>(14,877,008)</u>	<u>(43,452,400)</u>	<u>(16,831,805)</u>	<u>(75,161,213)</u>
8 Total	\$ (2,035,311)	\$ (15,159,028)	\$ 135,286,383	\$ 118,092,044
<b>Total Claims</b>				
9 Indemnity Claims (1)+(5)	\$ 1,508,350,204	\$ 1,753,351,690	\$ 1,331,924,511	\$ 4,593,626,405
10 Recoveries (3)+(7)	<u>(68,737,429)</u>	<u>(119,321,721)</u>	<u>(94,077,713)</u>	<u>(282,136,862)</u>
11 Net Indemnity Claims (9)+(10)	\$ 1,439,612,775	\$ 1,634,029,969	\$ 1,237,846,798	\$ 4,311,489,542
12 Unearned Premium Claims (2)+(6)	<u>32,412,695</u>	<u>110,629,197</u>	<u>50,293,429</u>	<u>193,335,320</u>
13 Total Claims (11)+(12)	\$ 1,472,025,470	\$ 1,744,659,166	\$ 1,288,140,227	\$ 4,504,824,862

<sup>1</sup> Expense Reporting Template 1

<sup>2</sup> Expense Reporting Template 2

<sup>3</sup> Expense Reporting Template 3

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Guaranty Fund Data**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2005 - 2007</u>
<b>Expenses Inside of the Claims System <sup>1</sup></b>				
<u>Allocated Loss Adjustment Expenses</u>				
1	\$ 238,455,533	\$ 189,560,755	\$ 175,255,158	\$ 603,271,446
2	59,887,653	45,076,540	29,818,077	134,782,270
3	<u>(4,883,071)</u>	<u>(8,828,098)</u>	<u>(5,179,612)</u>	<u>(18,890,782)</u>
4	\$ 293,460,115	\$ 225,809,197	\$ 199,893,623	\$ 719,162,935
5	<u>2,442,135</u>	<u>1,832,041</u>	<u>1,867,313</u>	<u>6,141,489</u>
6	\$ 295,902,250	\$ 227,641,237	\$ 201,760,936	\$ 725,304,424
<b>Expenses Outside of the Claims System <sup>3</sup></b>				
<u>Administrative Expenses</u>				
7	\$ 5,445,034	\$ 5,876,803	\$ 5,969,236	\$ 17,291,073
8	12,509,094	12,929,679	11,339,025	36,777,798
9	5,300,336	3,958,765	3,376,370	12,635,470
10	<u>36,191,293</u>	<u>31,498,538</u>	<u>29,590,174</u>	<u>97,280,004</u>
11	\$ 59,445,756	\$ 54,263,785	\$ 50,274,805	\$ 163,984,346
<u>Unallocated Loss Adjustment Expenses</u>				
12	\$ 41,569,240	\$ 38,674,928	\$ 37,408,059	\$ 117,652,227
13	1,965,184	2,159,775	1,995,766	6,120,725
14	2,170,004	2,340,911	2,521,699	7,032,614
15	<u>9,264,512</u>	<u>7,804,371</u>	<u>9,710,006</u>	<u>26,778,889</u>
16	\$ 54,968,940	\$ 50,979,985	\$ 51,635,530	\$ 157,584,455
17	\$ 3,531,129	\$ 3,969,337	\$ 4,060,175	\$ 11,560,641
18	\$ 117,945,826	\$ 109,213,106	\$ 105,970,510	\$ 333,129,442
19	4,070,705	21,594,402	5,078,777	30,743,883
<b>Total Expenses</b>				
20	\$ 59,445,756	\$ 54,263,785	\$ 50,274,805	\$ 163,984,346
21	\$ 293,460,115	\$ 225,809,197	\$ 199,893,623	\$ 719,162,935
22	<u>61,481,780</u>	<u>74,406,427</u>	<u>58,581,620</u>	<u>194,469,827</u>
23	\$ 354,941,895	\$ 300,215,624	\$ 258,475,243	\$ 913,632,762

<sup>1</sup> Expense Reporting Template 1

<sup>2</sup> Expense Reporting Template 2

<sup>3</sup> Expense Reporting Template 3

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Guaranty Fund Data by Line of Business  
2005-2007**

Lines of Business	Paid Indemnity Claims	Unearned Premium	Total Claims	Allocated LAE	ALAE to Total Claims	ULAE to Total Claims	LAE to Total Claims
Fire	28,452,063	49,616	28,501,679	1,748,179	6.1%		10.5%
Allied Lines	(42,500)	-	(42,500)	-	0.0%		4.3%
Farmowners Multiple Peril	788,556	(34)	788,522	114,663	14.5%		18.9%
Homeowners Multiple Peril	571,149,872	64,801,529	635,951,400	36,898,462	5.8%		10.1%
Commercial Multiple Peril	543,492,353	3,434,883	546,927,235	43,983,272	8.0%		12.4%
Ocean Marine	400,174	-	400,174	5,552	1.4%		5.7%
Inland Marine	3,701,703	43,103	3,744,806	1,862,382	49.7%		54.0%
Medical Malpractice	259,989,217	3,581,610	263,570,827	76,239,781	28.9%		33.2%
Earthquake	105,825	-	105,825	80,670	76.2%		80.5%
Group A&H	108,300	5,281	113,581	1,390	1.2%		5.5%
Workers' Compensation	2,296,604,391	7,858,374	2,304,462,765	357,602,678	15.5%		19.8%
Other Liability	333,218,674	72,698,643	405,917,317	154,301,502	38.0%		42.3%
Products Liability	2,001,156	18,276	2,019,433	1,531,773	75.9%		80.2%
Private Passenger Auto Liability	57,476,696	2,202,099	59,678,795	16,773,493	28.1%		32.4%
Commercial Auto Liability	120,538,630	2,485,443	123,024,073	23,755,790	19.3%		23.6%
Private Passenger Auto Physical Damage	2,443,460	2,314,175	4,757,635	2,417,658	50.8%		55.1%
Commercial Auto Physical Damage	1,696,336	1,883	1,698,219	427,626	25.2%		29.5%
Aircraft (all perils)	1,108,464	242	1,108,706	702,318	63.3%		67.7%
Fidelity	57,709	-	57,709	6,780	11.7%		16.1%
Surety	2,616,058	3,007	2,619,065	481,071	18.4%		22.7%
Boiler & Machinery	816,153	1,458	817,610	-	0.0%		4.3%
Credit	13	-	13	1	11.3%		15.6%
Aggregate Write-ins	510,837	(910)	509,927	227,890	44.7%		49.0%
Total	4,227,234,140	159,498,678	4,386,732,818	719,162,935	16.4%		20.7%
Claims Outside the Claim System	84,255,402	33,836,642	118,092,044				
Grand Total Claims	4,311,489,542	193,335,320	4,504,824,862	719,162,935	16.0%	4.3%	20.3%

Note: ULAE Percentage = Page 2, Line 22 (\$194,469,827) / Total Claims ((\$4,504,824,862)).

Source: Expense Reporting Template 1.

## National Conference of Insurance Guaranty Funds Review of Guaranty Fund Expenses

Exhibit 5

### Claim Distributions by Line of Business 2005-2007

	<b>GF Paid Claims</b>		<b>Insurance Industry Paid Claims</b>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Workers Compensation	\$ 2,304,462,765	52.5%	\$ 67,908,140,000	9.3%
Homeowners	635,951,400	14.5%	87,278,639,000	11.9%
Commercial Multiple Peril	546,927,235	12.5%	41,754,310,000	5.7%
General Liability	405,917,317	9.3%	68,002,721,000	9.3%
Medical Malpractice	263,570,827	6.0%	12,326,459,000	1.7%
Automobile	189,158,722	4.3%	324,616,192,000	44.4%
Other Lines of Business	<u>40,744,551</u>	<u>0.9%</u>	<u>128,745,088,000</u>	<u>17.6%</u>
<b>Subtotal</b>	<b>\$ 4,386,732,818</b>	<b>100.0%</b>	<b>\$ 730,631,549,000</b>	<b>100.0%</b>
Claims Outside of Claims System	<u>118,092,044</u>			
<b>Total Paid Claims</b>	<b>\$ 4,504,824,862</b>		<b>\$ 730,631,549,000</b>	

# National Conference of Insurance Guaranty Funds Review of Guaranty Fund Expenses

Exhibit 6

## Age of Claim Adjustments

	<b><u>Age of Claim Adjustment</u></b>
Workers Compensation	-13.0%
Homeowners	6.0%
Commercial Multiple Peril	31.0%
General Liability	6.0%
Medical Malpractice	-9.0%
Automobile	-11.4%
Other Lines of Business	3.1%
<b>Total</b>	<b>-2.2%</b>

Note: Results derived in the Technical Appendix.

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Net (After) of Reinsurance  
2005-2007**

(\$000s Omitted)

Lines of Business	Net Incurred Loss	Net General Expenses Incurred			Net Loss Adjustment Expenses		
		Reported	Reported % to Loss	Adjusted % to Loss	Reported	Reported % to Loss	Adjusted % to Loss
Fire	11,950,467	2,015,686	16.9%	16.9%	1,514,831	12.7%	12.7%
Allied Lines	17,738,062	2,061,919	11.6%	11.6%	924,648	5.2%	5.2%
Farmowners Multiple Peril	3,970,483	420,773	10.6%	10.6%	563,920	14.2%	15.1%
Homeowners Multiple Peril	87,278,639	7,983,444	9.1%	9.1%	15,457,724	17.7%	18.8%
Commercial Multiple Peril	41,754,310	6,191,670	14.8%	14.8%	12,780,992	30.6%	40.1%
Mortgage Guaranty	8,718,406	1,850,885	21.2%	21.2%	392,823	4.5%	4.5%
Ocean Marine	5,722,405	644,074	11.3%	11.3%	1,357,683	23.7%	29.7%
Inland Marine	11,950,226	2,002,416	16.8%	16.8%	1,648,045	13.8%	13.8%
Financial Guaranty	3,810,286	1,263,972	33.2%	33.2%	46,305	1.2%	1.2%
Medical Malpractice	12,326,459	1,867,593	15.2%	16.0%	8,052,503	65.3%	62.7%
Earthquake	188,598	323,673	171.6%	171.6%	37,777	20.0%	20.0%
Group A&H	10,068,828	751,673	7.5%	7.5%	762,295	7.6%	7.6%
Credit A&H	122,644	99,091	80.8%	80.8%	9,047	7.4%	7.4%
Other A&H	4,537,820	800,369	17.6%	17.6%	406,960	9.0%	9.0%
Workers' Compensation	67,908,140	7,299,262	10.7%	10.7%	15,749,626	23.2%	20.2%
Other Liability	68,002,721	7,560,900	11.1%	11.2%	24,626,750	36.2%	38.8%
Products Liability	3,895,338	699,735	18.0%	18.0%	4,255,338	109.2%	109.2%
Private Passenger Auto Liability	172,683,772	15,480,349	9.0%	9.0%	38,370,975	22.2%	18.4%
Commercial Auto Liability	31,091,152	3,915,556	12.6%	12.6%	6,946,647	22.3%	19.0%
Private Passenger Auto Physical Damage	110,275,147	10,397,026	9.4%	9.4%	19,478,549	17.7%	17.7%
Commercial Auto Physical Damage	10,566,121	1,413,775	13.4%	13.4%	1,673,016	15.8%	15.8%
Aircraft (all perils)	2,319,313	304,779	13.1%	13.1%	405,907	17.5%	21.9%
Fidelity	1,647,433	313,714	19.0%	19.0%	222,461	13.5%	13.5%
Surety	3,252,778	1,133,586	34.8%	34.8%	1,085,770	33.4%	33.4%
Burglary & Theft	80,443	27,109	33.7%	33.7%	18,849	23.4%	23.4%
Boiler & Machinery	1,510,965	523,183	34.6%	34.6%	185,823	12.3%	15.4%
Credit	2,091,332	331,570	15.9%	15.9%	46,218	2.2%	2.2%
International	236,146	37,253	15.8%	15.8%	46,462	19.7%	19.7%
Reinsurance Nonproportional 31+32+33	30,379,199	1,635,743	5.4%	5.4%	2,119,250	7.0%	7.0%
Aggregate Write-ins	4,553,916	473,763	10.4%	10.4%	503,089	11.0%	11.0%
<b>Total</b>	<b>730,631,549</b>	<b>79,824,541</b>	<b>10.9%</b>	<b>11.5%</b>	<b>159,690,283</b>	<b>21.9%</b>	<b>26.7%</b>

Notes:

Data excludes State Funds and Federal Flood Insurance.

Totals for "Adjusted % to Loss" reflect weighting by GF claim distribution by line of business.

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Direct (Before) of Reinsurance  
2005-2007**

(\$000s Omitted)

Lines of Business	Direct Incurred Loss	Direct General Expenses Incurred			Direct Loss Adjustment Expenses		
		Reported	Reported % to Loss	Adjusted % to Loss	Reported Direct LAE	Reported % to Loss	Adjusted % to Loss
Fire	13,350,312	1,882,787	14.1%	14.1%	2,593,218	19.4%	19.4%
Allied Lines	31,615,698	1,961,345	6.2%	6.2%	2,234,473	7.1%	7.1%
Farmowners Multiple Peril	4,156,822	413,581	9.9%	9.9%	530,912	12.8%	13.5%
Homeowners Multiple Peril	99,816,899	7,844,359	7.9%	7.9%	15,961,804	16.0%	17.0%
Commercial Multiple Peril	50,224,896	6,130,392	12.2%	12.2%	13,801,501	27.5%	36.0%
Mortgage Guaranty	9,024,444	1,751,239	19.4%	19.4%	390,651	4.3%	4.3%
Ocean Marine	7,037,153	580,704	8.3%	8.3%	899,656	12.8%	16.0%
Inland Marine	19,847,891	2,087,117	10.5%	10.5%	5,186,039	26.1%	26.1%
Financial Guaranty	3,938,953	1,086,078	27.6%	27.6%	29,433	0.7%	0.7%
Medical Malpractice	14,815,212	1,839,538	12.4%	13.1%	8,528,353	57.6%	55.3%
Earthquake	244,888	284,006	116.0%	116.0%	72,590	29.6%	29.6%
Group A&H	8,115,826	524,534	6.5%	6.5%	492,828	6.1%	6.1%
Credit A&H	146,424	114,116	77.9%	77.9%	7,080	4.8%	4.8%
Other A&H	4,879,370	697,098	14.3%	14.3%	459,325	9.4%	9.4%
Workers' Compensation	77,933,829	7,272,759	9.3%	9.3%	16,593,837	21.3%	18.5%
Other Liability	88,263,311	7,100,757	8.0%	8.1%	31,085,559	35.2%	37.8%
Products Liability	5,643,522	668,937	11.9%	11.9%	5,707,312	101.1%	101.1%
Private Passenger Auto Liability	179,824,132	15,544,104	8.6%	8.6%	38,805,923	21.6%	17.9%
Commercial Auto Liability	36,018,840	3,744,571	10.4%	10.4%	7,753,614	21.5%	18.3%
Private Passenger Auto Physical Damage	113,743,404	10,371,548	9.1%	9.1%	20,106,246	17.7%	17.7%
Commercial Auto Physical Damage	11,424,084	1,434,356	12.6%	12.6%	1,748,293	15.3%	15.3%
Aircraft (all perils)	4,126,181	246,009	6.0%	6.0%	672,382	16.3%	20.4%
Fidelity	1,505,219	284,618	18.9%	18.9%	270,885	18.0%	18.0%
Surety	3,484,947	1,090,408	31.3%	31.3%	1,203,723	34.5%	34.5%
Burglary & Theft	85,571	29,045	33.9%	33.9%	14,506	17.0%	17.0%
Boiler & Machinery	1,014,185	355,689	35.1%	35.1%	182,885	18.0%	22.5%
Credit	2,297,002	290,975	12.7%	12.7%	51,966	2.3%	2.3%
International	69,025	25,700	37.2%	37.2%	23,841	34.5%	34.5%
Reinsurance Nonproportional 31+32+33	0	0	0.0%	0.0%	0	0.0%	0.0%
Aggregate Write-ins	6,632,509	596,007	9.0%	9.0%	303,388	4.6%	4.6%
Total	799,280,549	76,252,377	9.5%	9.7%	175,712,223	22.0%	24.5%

Notes:

Data excludes State Funds and Federal Flood Insurance.

Totals for "Adjusted % to Loss" reflect weighting by GF claim distribution by line of business.

**National Conference of Insurance Guaranty Funds**  
**REVIEW OF PROPERTY AND CASUALTY INSURANCE**  
**GUARANTY FUND EXPENSES**

**Technical Appendix**

National Conference of Insurance Guaranty Funds  
**REVIEW OF PROPERTY AND CASUALTY INSURANCE  
GUARANTY FUND EXPENSES**  
**Technical Appendix**

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National Conference of Insurance Guaranty Funds  
**REVIEW OF PROPERTY AND CASUALTY INSURANCE  
GUARANTY FUND EXPENSES**  
**Technical Appendix**

***BACKGROUND***

The National Conference of Insurance Guaranty Funds (“NCIGF”) engaged Actuarial, Insurance and Management Services, Inc. (“AIM”) to conduct an operating expense review of the property and casualty insurance guaranty funds (“GFs”). This Technical Appendix supports the report produced for this review. It provides certain data and calculations underlying the results discussed in the report. As a technical appendix, it is written such that another qualified actuary or professional should be able to follow the calculations and descriptions.

The report describes numerous differences between the GFs and insurance industry. To facilitate comparisons between the two, AIM adjusted the insurance industry data to make the resulting operating expense measures for the industry more comparable to the GFs. The remainder of this Technical Appendix will discuss these adjustments in the same order that they are performed. The adjustments include the effect of GF net worth provisions, the older GF claim population, and the GF distribution of claims by line of business.

***ADJUSTMENT FOR NET WORTH PROVISIONS***

Several GF laws contain provisions which exclude claims for policyholders with high net worth from coverage by the GFs. Exhibit TA-1 provides a summary of the net worth provisions for the 2005-2007 review period, as prepared by the NCIGF.

The GFs pay expenses associated with net worth claims (e.g., investigation, correspondence, legal, etc.), but those expenses ultimately are associated with no claim amounts. This creates a high-side bias in the expense measures for the GFs in comparison to the insurance industry. The approach used to adjust for this bias is:

National Conference of Insurance Guaranty Funds

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- 1) Estimate the effect of net worth provisions on overall GF claim amounts,
- 2) Apply that effect to the insurance industry claim amounts.

This correction is intended to produce a comparable effect of net worth provisions in both sets of data. Please note that it would be equivalent to remove the effect of net worth provisions from the GFs, but the objective is to adjust the insurance industry structure to reflect a GF environment.

Data is not currently available to perform an objective adjustment for net worth provisions. We relied on the judgment of a long-term GF claim management employee to develop estimates of the effect of net worth provisions. This expert recommended that a conservative set of assumptions would be a 10 percent reduction of claims for Medical Malpractice, a 5 percent reduction of claims for General Liability, and no reduction for other coverages.

AIM used these assumptions to gross-up the reported GF claim amounts for states with net worth provisions, and then aggregated the amounts to produce GF claim amounts by line of business without the effects of net worth provisions. The aggregate data reflecting these net worth calculations is shown in Exhibit TA-2 (please note that the purpose for this report precludes the disclosure of individual GF data reflecting the underlying calculations). As shown in this exhibit, the effect of net worth provisions is reduced in aggregate to 5.2 percent for Medical Malpractice and 1.1 percent for General Liability.

The effects of net worth provisions are then applied to the insurance industry claim amounts to produce adjusted insurance industry claim amounts, as shown in Exhibit TA-3. Since Medical Malpractice and General Liability represent less than 20 percent of all GF claims, the resulting adjustment is fairly minimal in total.

National Conference of Insurance Guaranty Funds  
**REVIEW OF PROPERTY AND CASUALTY INSURANCE  
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**Technical Appendix**

***ADJUSTMENT FOR AGE OF CLAIM POPULATION***

The GFs pay certain policyholder claims of insolvent insurance companies. It is common for such companies to have completed a period of rehabilitation and run-off prior to being declared insolvent. As a result, the claims paid by the GFs are older than those paid by the insurance industry, which pays a significant amount of claims during the first year after occurrence.

The relationship of loss adjustment expenses (“LAE”) to claim amounts varies depending on the age of a claim. This variation differs by line of business. In order to make the insurance industry operating measures better reflect the claim environment in which the GFs operate, AIM has adjusted the insurance industry LAE for age of claim effects.

The age of claim adjustment factors were based on an analysis of Schedule P data as reported in the statutory Annual Statements, as aggregated and published by the A.M. Best Company. Exhibit TA-4 illustrates the calculation for the Homeowners line of business. Using calendar year 2006 as an example, LAE and claim payments on claims that occurred during 2006 are segregated from paid amounts on older claims. The ratio of “LAE-to-claim” payments is calculated for the older claim group as well as for all claims. The age of claim adjustment factor is calculated by dividing the older claim group ratio by the ratio for all claims.

Age of claim adjustment factors were calculated using 2006 and 2007 data for each line of business (as grouped in Schedule P) and compared to the corresponding factors from the original expense review, which were derived using 2004 data. This comparison is shown on Exhibit TA-5. Since these factors vary from year to year for several lines of business, an average factor was derived for purposes of adjusting the

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**REVIEW OF PROPERTY AND CASUALTY INSURANCE  
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**Technical Appendix**

insurance industry data. For certain lines of business (generally those associated with shorter-tail claim payment patterns), the nature of variation from year to year was such that an adjustment factor of 1.000 (i.e., no adjustment) was selected by judgment (see Exhibit TA-5).

The age of claim adjustment factors are applied to the actual LAE to claim amount ratios for the insurance industry, producing adjusted LAE to claim amount ratios. Multiplying the adjusted LAE to claim amount ratios by incurred losses equals adjusted LAE amounts that reflect an older claim population. Exhibit TA-6 illustrates this calculation.

***ADJUSTED LAE AND GENERAL EXPENSE RATIOS***

Using the adjusted incurred losses (reflecting the effect of net worth provisions), adjusted LAE (reflecting the age of claim population), and the reported general expenses for the insurance industry, adjusted ratios of expense to claim amount are calculated. The results of this calculation are shown in Exhibit TA-7.

***ADJUSTMENT FOR LINE OF BUSINESS DISTRIBUTION***

The distribution of claims by line of business for the GFs varies materially from the insurance industry. Expenses (particularly LAE) differ by line of business. Thus, our final adjustment involves recalculating the overall adjusted ratio of expenses to claim amount for the insurance industry by weighting the ratios by line of business according to the GF claim distribution. This calculation is shown in Exhibit TA-8.

NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS  
2005 SUMMARY OF PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION ACTS  
SUMMARY BY PROVISION

<u>STATE</u>	<u>DEDUCTIBLE/ COVERED CLAIM</u>	<u>MAXIMUM PER CLAIM</u>	<u>WORKERS' COMP PAID IN FULL?</u>	<u>NET WORTH PROVISION</u>
NAIC	NONE	\$300,000/CLAIMANT	YES	YES
NCIGF	NONE	\$300,000/CLAIMANT	YES	YES
AL	\$100	\$150,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
AK	NONE	\$500,000	YES	NONE
AZ	\$100	\$100,000	WC NOT CVRD (4)	NONE
AR	NONE	\$300,000	(5)	YES \$50M 1 <sup>ST</sup> , 3 <sup>RD</sup>
CA	\$100 (3)	\$500,000	YES	NONE
CO	\$100	\$100,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
CT	\$100	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
DE	NONE	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
DC	NONE	\$300,000	YES	YES \$50M SUBRO
FL	\$100	\$300,000 (14)	WC NOT CVRD (9)	NONE (15)
FLWC	NONE	NONE	YES	NONE (15)
GA	\$50 (3)	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M 3 <sup>RD</sup> , SUBRO
HI	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
ID	NONE	\$300,000	YES	NONE
IL	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
IN	NONE	\$100K/CLAIM; \$300K/OCC.	(5)	YES \$5M 1 <sup>ST</sup> , \$50M 3 <sup>RD</sup>
IA	NONE	\$300,000	YES	NONE (16)
KS	NONE	\$300,000	YES	NONE
KY	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
LA	\$100	\$150K/CLAIM/\$300K/OCC.	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
ME	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup>
MD	\$100	\$300,000/CLAIM	YES	YES \$50M 1 <sup>ST</sup>
MA	NONE	\$300,000	YES	NONE
MI	\$10	.05% OF P/Y PREM	(6)	YES .1% OF AGG PREM PRCDG YR
MN	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
MS	\$50	\$300,000	YES	NONE
MO	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup>
MT	NONE	\$300,000	YES	YES \$50M SUBRO
NE	\$100	\$300,000	YES	NONE
NV	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
NH	\$50	\$300,000	YES	YES (34)
NJ	NONE	\$300K/CLAIM	WC NOT CVRD (9)	YES \$25M 1 <sup>ST</sup> , SUBRO
NJWC	NONE	NONE	YES	NONE
NM	\$25	\$100K PER CLM OR CLMNT	YES	NONE
NY	NONE	\$1MM/CLM;\$5MM/POL (NONRES)	WC NOT CVRD (9)	NONE
NC	\$50	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
ND	NONE	\$300,000	(7)	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
OH	\$100 (3)	\$300,000	(7)	YES \$50M SUBRO
OK	NONE	\$150,000	YES	YES \$50M SUBRO
OR	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
PA	NONE	\$300,000	WC NOT CVRD (9)	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
PAWC	NONE	(29)	YES	NONE
PR	\$100	\$150,000	(11)	NONE
RI	NONE	\$300,000	YES	YES \$50M SUBRO
SC	\$250	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
SD	NONE	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
TN	\$100	\$100,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
TX	NONE	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
UT	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
VT	NONE	\$300,000	YES	NONE
VI	\$50	\$50,000	(5)	NONE
VA	NONE	\$300,000	YES	YES \$50M SUBRO
WA	\$100	\$300,000	WC NOT CVRD (7)	NONE
WV	\$100	\$300,000	WC NOT CVRD (7)	NONE
WI	NONE	\$300,000/RISK, LOSS OR LIFE	(6)	YES OLD MODEL SUBRO PROV
WY	\$250	\$150,000/CLAIMANT	YES	NONE

NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS  
2006 SUMMARY OF PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION ACTS  
SUMMARY BY PROVISION

<u>STATE</u>	<u>DEDUCTIBLE/ COVERED CLAIM</u>	<u>MAXIMUM PER CLAIM</u>	<u>WORKERS' COMP PAID IN FULL?</u>	<u>NET WORTH PROVISION</u>
NAIC	NONE	\$300,000/CLAIMANT	YES	YES
NCIGF	NONE	\$300,000/CLAIMANT	YES	YES
AL	\$100	\$150,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
AK	NONE	\$500,000	YES	NONE
AZ	\$100	\$100,000	WC NOT CVRD (4)	NONE
AR	NONE	\$300,000	(5)	YES \$50M 1 <sup>ST</sup> , 3 <sup>RD</sup>
CA	\$100 (3)	\$500,000	YES	NONE
CO	\$100	\$100,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
CT	\$100	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
DE	NONE	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
DC	NONE	\$300,000	YES	YES \$50M SUBRO
FL	\$100	\$300,000 (14) (37)	WC NOT CVRD (9)	NONE (15)
FLWC	NONE	NONE	YES	NONE (15)
GA	\$50 (3)	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M 3 <sup>RD</sup> , SUBRO
HI	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
ID	NONE	\$300,000	YES	NONE
IL	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
IN	NONE	\$100K/CLAIM; \$300K/OCC.	(5)	YES \$5M 1 <sup>ST</sup> , \$50M 3 <sup>RD</sup>
IA	NONE	\$300,000	YES	NONE (16)
KS	NONE	\$300,000	YES	NONE
KY	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
LA	\$100	\$150K/CLAIM/\$300K/OCC.	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
ME	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup>
MD	\$100	\$300,000/CLAIM	YES	YES \$50M 1 <sup>ST</sup>
MA	NONE	\$300,000	YES	NONE
MI	NONE	\$5,000,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup>
MN	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
MS	\$50	\$300,000	YES	NONE
MO	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup>
MT	NONE	\$300,000	YES	YES \$50M SUBRO
NE	\$100	\$300,000	YES	NONE
NV	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
NH	\$50	\$300,000	YES	YES (34)
NJ	NONE	\$300K/CLAIM	WC NOT CVRD (9)	YES \$25M 1 <sup>ST</sup> , SUBRO
NJWC	NONE	NONE	YES	NONE
NM	\$25	\$100K PER CLM OR CLMNT	YES	NONE
NY	NONE	\$1MM/CLM;\$5MM/POL (NONRES)	WC NOT CVRD (9)	NONE
NC	\$50	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
ND	NONE	\$300,000	(7)	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
OH	\$100 (3)	\$300,000	(7)	YES \$50M SUBRO
OK	NONE	\$150,000	YES	YES \$50M SUBRO
OR	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
PA	NONE	\$300,000	WC NOT CVRD (9)	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
PAWC	NONE	(29)	YES	NONE
PR	\$100	\$150,000	(11)	NONE
RI	NONE	\$300,000	YES	YES \$50M SUBRO
SC	\$250	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
SD	NONE	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
TN	\$100	\$100,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
TX	NONE	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
UT	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
VT	NONE	\$300,000	YES	NONE
VI	\$50	\$50,000	(5)	NONE
VA	NONE	\$300,000	YES	YES \$50M SUBRO
WA	\$100	\$300,000	WC NOT CVRD (7)	NONE
WV	\$100	\$300,000	WC NOT CVRD (7)	NONE
WI	NONE	\$300,000/RISK, LOSS OR LIFE	(6)	YES OLD MODEL SUBRO PROV
WY	\$250	\$150,000/CLAIMANT	YES	NONE

**NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS**  
**2007 SUMMARY OF PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION ACTS**  
**SUMMARY BY PROVISION**

<u>STATE</u>	<u>DEDUCTIBLE/ COVERED CLAIM</u>	<u>MAXIMUM PER CLAIM</u>	<u>WORKERS' COMP PAID IN FULL?</u>	<u>NET WORTH PROVISION</u>
NAIC	NONE	\$300,000/CLAIMANT	YES	YES
NCIGF	NONE	\$300,000/CLAIMANT	YES	YES
AL	\$100	\$150,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
AK	NONE	\$500,000	YES	NONE
AZ	\$100	\$100,000	WC NOT CVRD (4)	NONE
AR	NONE	\$300,000	(5)	YES \$50M 1 <sup>ST</sup> , 3 <sup>RD</sup>
CA	\$100 (3)	\$500,000	YES	NONE
CO	\$100	\$100,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
CT	\$100	\$400,000	YES	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
DE	NONE	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
DC	NONE	\$300,000	YES	YES \$50M SUBRO
FL	\$100	\$300,000 (14) (37)	WC NOT CVRD (9)	NONE (15)
FLWC	NONE	NONE	YES	NONE (15)
GA	\$50 (3)	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M 3 <sup>RD</sup> , SUBRO
HI	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
ID	NONE	\$300,000	YES	NONE
IL	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
IN	NONE	\$100K/CLAIM; \$300K/OCC.	(5)	YES \$5M 1 <sup>ST</sup> , \$50M 3 <sup>RD</sup>
IA	NONE	\$300,000	YES	NONE (16)
KS	NONE	\$300,000	YES	NONE
KY	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
LA	\$100	\$150K/CLAIM/\$300K/OCC.	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
ME	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup>
MD	\$100	\$300,000/CLAIM	YES	YES \$50M 1 <sup>ST</sup>
MA	NONE	\$300,000	YES	YES \$25 M 1 <sup>ST</sup> , SUBRO
MI	NONE	\$5,000,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup>
MN	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
MS	\$50	\$300,000	YES	NONE
MO	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup>
MT	NONE	\$300,000	YES	YES \$50M SUBRO
NE	\$100	\$300,000	YES	NONE
NV	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , 3 <sup>RD</sup> , SUBRO
NH	\$50	\$300,000	YES	YES (34)
NJ	NONE	\$300K/CLAIM	WC NOT CVRD (9)	YES \$25M 1 <sup>ST</sup> , SUBRO
NJWC	NONE	NONE	YES	NONE
NM	\$25	\$100K PER CLM OR CLMNT	YES	NONE
NY	NONE	\$1MM/CLM;\$5MM/POL (NONRES)	WC NOT CVRD (9)	NONE
NC	\$50	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
ND	NONE	\$300,000	(7)	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
OH	\$100 (3)	\$300,000	(7)	YES \$50M 1st and 3 <sup>rd</sup>
OK	NONE	\$150,000	YES	YES \$50M SUBRO
OR	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
PA	NONE	\$300,000	WC NOT CVRD (9)	YES \$25M 1 <sup>ST</sup> , \$50M SUBRO
PAWC	NONE	(29)	YES	NONE
PR	\$100	\$150,000	(11)	NONE
RI	NONE	\$500,000	YES	YES \$50M SUBRO
SC	\$250	\$300,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
SD	NONE	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
TN	\$100	\$100,000	YES	YES \$10M 1 <sup>ST</sup> , \$25M SUBRO
TX	NONE	\$300,000	YES	YES \$50M 1 <sup>ST</sup> , SUBRO
UT	NONE	\$300,000	YES	YES \$25M 1 <sup>ST</sup> , SUBRO
VT	NONE	\$300,000	YES	NONE
VI	\$50	\$50,000	(5)	NONE
VA	NONE	\$300,000	YES	YES \$50M SUBRO
WA	\$100	\$300,000	WC NOT CVRD (7)	NONE
WV	\$100	\$300,000	WC NOT CVRD (7)	NONE
WI	NONE	\$300,000/RISK, LOSS OR LIFE	(6)	YES OLD MODEL SUBRO PROV
WY	\$250	\$150,000/CLAIMANT	YES	NONE

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

Exhibit TA-2

**Estimated Effect of Net Worth Provisions**

ASL	GF Net Paid Indemnity Claims		Net Worth Effect
	Actual	Prior to Net Worth (Estimate)	
1	28,501,679.35	28,501,679.35	1.000
2	(42,500.00)	(42,500.00)	1.000
3	788,522.39	788,522.39	1.000
4	635,951,400.45	635,951,400.45	1.000
5	546,927,235.08	546,927,235.08	1.000
8	400,174.24	400,174.24	1.000
9	3,744,805.93	3,744,805.93	1.000
11	263,570,827.12	278,073,186.21	0.948
12	105,825.06	105,825.06	1.000
13	113,581.35	113,581.35	1.000
14	-	-	1.000
15			1.000
16	2,304,462,765.11	2,304,462,765.11	1.000
17	405,917,316.97	410,594,038.52	0.989
18	2,019,432.75	2,019,432.75	1.000
19.1	9,818,516.41	9,818,516.41	1.000
19.2	50,906,961.18	50,906,961.18	1.000
19.3	2,713,670.64	2,713,670.64	1.000
19.4	120,304,967.67	120,304,967.67	1.000
21.1	3,710,952.37	3,710,952.37	1.000
21.2	1,703,653.98	1,703,653.98	1.000
22	1,108,705.79	1,108,705.79	1.000
23	57,709.07	57,709.07	1.000
24	2,619,065.20	2,619,065.20	1.000
25	-	-	1.000
26	-	-	1.000
27	817,610.29	817,610.29	1.000
28	13.18	13.18	1.000
33	509,926.65	509,926.65	1.000
TOTAL	4,386,732,818.24	4,405,911,898.88	0.996

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Net of Reinsurance**

**Adjustment for Effects of Net Worth Provisions**

<b>Lines of Business</b>	<b>Net Incurred Loss</b>	<b>Net Worth Adjustment Factor</b>	<b>Adjusted Net Incurred Loss</b>
Fire	11,950,467	1.000	11,950,467
Allied Lines	17,738,062	1.000	17,738,062
Farmowners Multiple Peril	3,970,483	1.000	3,970,483
Homeowners Multiple Peril	87,278,639	1.000	87,278,639
Commercial Multiple Peril	41,754,310	1.000	41,754,310
Mortgage Guaranty	8,718,406	1.000	8,718,406
Ocean Marine	5,722,405	1.000	5,722,405
Inland Marine	11,950,226	1.000	11,950,226
Financial Guaranty	3,810,286	1.000	3,810,286
Medical Malpractice	12,326,459	0.948	11,683,597
Earthquake	188,598	1.000	188,598
Group A&H	10,068,828	1.000	10,068,828
Credit A&H	122,644	1.000	122,644
Other A&H	4,537,820	1.000	4,537,820
Workers' Compensation	67,908,140	1.000	67,908,140
Other Liability	68,002,721	0.989	67,228,161
Products Liability	3,895,338	1.000	3,895,338
Private Passenger Auto Liability	172,683,772	1.000	172,683,772
Commercial Auto Liability	31,091,152	1.000	31,091,152
Private Passenger Auto Physical Damage	110,275,147	1.000	110,275,147
Commercial Auto Physical Damage	10,566,121	1.000	10,566,121
Aircraft (all perils)	2,319,313	1.000	2,319,313
Fidelity	1,647,433	1.000	1,647,433
Surety	3,252,778	1.000	3,252,778
Burglary & Theft	80,443	1.000	80,443
Boiler & Machinery	1,510,965	1.000	1,510,965
Credit	2,091,332	1.000	2,091,332
International	236,146	1.000	236,146
Reinsurance Nonproportional 31+32+33	30,379,199	1.000	30,379,199
Aggregate Write-ins	4,553,916	1.000	4,553,916
<b>Total</b>	<b>730,631,549</b>	<b>0.998</b>	<b>729,214,127</b>

Note: Data excludes State Funds and Federal Flood Insurance.

(\$000s Omitted)

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Gross of Reinsurance**

**Adjustment for Effects of Net Worth**

<b>Lines of Business</b>	<b>Direct Incurred Loss</b>	<b>Net Worth Adjustment Factor</b>	<b>Adjusted Direct Incurred Loss</b>
Fire	13,350,312	1.000	13,350,312
Allied Lines	31,615,698	1.000	31,615,698
Farmowners Multiple Peril	4,156,822	1.000	4,156,822
Homeowners Multiple Peril	99,816,899	1.000	99,816,899
Commercial Multiple Peril	50,224,896	1.000	50,224,896
Mortgage Guaranty	9,024,444	1.000	9,024,444
Ocean Marine	7,037,153	1.000	7,037,153
Inland Marine	19,847,891	1.000	19,847,891
Financial Guaranty	3,938,953	1.000	3,938,953
Medical Malpractice	14,815,212	0.948	14,042,554
Earthquake	244,888	1.000	244,888
Group A&H	8,115,826	1.000	8,115,826
Credit A&H	146,424	1.000	146,424
Other A&H	4,879,370	1.000	4,879,370
Workers' Compensation	77,933,829	1.000	77,933,829
Other Liability	88,263,311	0.989	87,257,980
Products Liability	5,643,522	1.000	5,643,522
Private Passenger Auto Liability	179,824,132	1.000	179,824,132
Commercial Auto Liability	36,018,840	1.000	36,018,840
Private Passenger Auto Physical Damage	113,743,404	1.000	113,743,404
Commercial Auto Physical Damage	11,424,084	1.000	11,424,084
Aircraft (all perils)	4,126,181	1.000	4,126,181
Fidelity	1,505,219	1.000	1,505,219
Surety	3,484,947	1.000	3,484,947
Burglary & Theft	85,571	1.000	85,571
Boiler & Machinery	1,014,185	1.000	1,014,185
Credit	2,297,002	1.000	2,297,002
International	69,025	1.000	69,025
Reinsurance Nonproportional 31+32+33	0	1.000	0
Aggregate Write-ins	6,632,509	1.000	6,632,509
<b>Total</b>	<b>799,280,549</b>	<b>0.998</b>	<b>797,502,560</b>

Note: Data excludes State Funds and Federal Flood Insurance.

(\$000s Omitted)

# National Conference of Insurance Guaranty Funds Review of Guaranty Fund Expenses

Exhibit TA-4

## Adjustment for Age of Claim Population

### SCHEDULE P — PART 1A — HOMEOWNERS/FARMOWNERS — 2006

YEARS IN WHICH PREMIUMS WERE EARNED AND LOSSES WERE INCURRED	NET LOSS PAID	NET DCC PAID	NET AOP PAID	NET LAE PAID	LAE:LOSS PAID
Prior	35,308	9,066	4,489	13,555	38.4%
1997	15,531,347	802,920	2,092,420	2,895,340	18.6%
1998	19,676,338	698,168	2,868,993	3,567,161	18.1%
1999	20,205,464	713,165	2,839,025	3,552,190	17.6%
2000	24,027,720	846,369	3,035,692	3,882,061	16.2%
2001	27,358,142	1,153,170	3,269,306	4,422,476	16.2%
2002	24,058,563	950,694	3,170,903	4,121,597	17.1%
2003	25,340,324	687,065	3,337,146	4,024,211	15.9%
2004	26,923,423	532,465	3,947,000	4,479,465	16.6%
2005	29,029,666	429,079	4,452,057	4,881,136	16.8%
2006	<u>20,137,158</u>	<u>217,660</u>	<u>3,001,612</u>	<u>3,219,272</u>	<u>16.0%</u>
Totals	232,323,453	7,039,821	32,018,643	39,058,464	16.8%
<b>2006 Calendar Year</b>					
Total	29,277,187			4,806,215	16.4%
Current Accident Year	20,137,158			3,219,272	16.0%
Prior Accident Years	9,140,029			1,586,943	17.4%
Age of Claim Adjustment Factor					<b>105.8%</b>

### SCHEDULE P — PART 1A — HOMEOWNERS/FARMOWNERS — 2007

YEARS IN WHICH PREMIUMS WERE EARNED AND LOSSES WERE INCURRED	NET LOSS PAID	NET DCC PAID	NET AOP PAID	NET LAE PAID	LAE:LOSS PAID
Prior	57,631	11,002	5,585	16,587	28.8%
1998	19,729,493	702,089	2,876,842	3,578,931	18.1%
1999	20,254,611	718,780	2,841,618	3,560,398	17.6%
2000	24,010,095	857,776	3,036,049	3,893,825	16.2%
2001	27,361,508	1,174,036	3,271,908	4,445,944	16.2%
2002	24,166,747	991,270	3,182,347	4,173,617	17.3%
2003	25,645,362	766,100	3,370,613	4,136,713	16.1%
2004	27,734,020	662,209	4,051,325	4,713,534	17.0%
2005	30,503,841	615,269	4,741,163	5,356,432	17.6%
2006	26,716,198	416,972	3,754,819	4,171,791	15.6%
2007	<u>22,636,619</u>	<u>240,919</u>	<u>3,080,118</u>	<u>3,321,037</u>	<u>14.7%</u>
Totals	248,816,125	7,156,422	34,212,387	41,368,809	16.6%
<b>2007 Calendar Year</b>					
Total	31,338,870			4,847,950	15.5%
Current Accident Year	22,636,619			3,321,037	14.7%
Prior Accident Years	8,702,251			1,526,913	17.5%
Age of Claim Adjustment Factor					<b>113.4%</b>

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

Exhibit TA-5

**Adjustment for Age of Claim Population**

**Age of Claim Adjustment Factors**

<b>Line of Business</b>	<b>Prior Study</b>	<b>2006 Data</b>	<b>2007 Data</b>	<b>Select</b>
Homeowners/Farmowners	98%	106%	113%	106%
Personal Auto Liability	84%	82%	83%	83%
Commercial Auto Liability	87%	83%	84%	85%
Workers Compensation	81%	89%	93%	87%
Commercial Multi-Peril	138%	120%	136%	131%
Medical Malpractice	92%	91%	91%	91%
Special Liability	109%	128%	138%	125%
General Liability	105%	106%	107%	106%
Products Liability	101%	99%	99%	100%
Special Property	109%	37%	5%	100%
Auto Physical Damage	98%	222%	236%	100%
Fidelity/Surety	97%	108%	97%	100%
Other Coverages	104%	89%	90%	100%
Fincl/Mort Guaranty	89%	103%	110%	100%

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Net of Reinsurance**

**Adjustment for Age of Claim Population**

Lines of Business	Net Loss Adjustment Expenses					
	Net Incurred Loss	Reported Net LAE	Reported % to Loss	Age of Claim Adjustment Factor	Adjusted LAE % Of Loss	Adjusted Net LAE
Fire	11,950,467	1,514,831	12.7%	1.000	12.7%	1,514,831
Allied Lines	17,738,062	924,648	5.2%	1.000	5.2%	924,648
Farmowners Multiple Peril	3,970,483	563,920	14.2%	1.060	15.1%	597,755
Homeowners Multiple Peril	87,278,639	15,457,724	17.7%	1.060	18.8%	16,385,187
Commercial Multiple Peril	41,754,310	12,780,992	30.6%	1.310	40.1%	16,743,100
Mortgage Guaranty	8,718,406	392,823	4.5%	1.000	4.5%	392,823
Ocean Marine	5,722,405	1,357,683	23.7%	1.250	29.7%	1,697,104
Inland Marine	11,950,226	1,648,045	13.8%	1.000	13.8%	1,648,045
Financial Guaranty	3,810,286	46,305	1.2%	1.000	1.2%	46,305
Medical Malpractice	12,326,459	8,052,503	65.3%	0.910	59.4%	7,327,778
Earthquake	188,598	37,777	20.0%	1.000	20.0%	37,777
Group A&H	10,068,828	762,295	7.6%	1.000	7.6%	762,295
Credit A&H	122,644	9,047	7.4%	1.000	7.4%	9,047
Other A&H	4,537,820	406,960	9.0%	1.000	9.0%	406,960
Workers' Compensation	67,908,140	15,749,626	23.2%	0.870	20.2%	13,702,175
Other Liability	68,002,721	24,626,750	36.2%	1.060	38.4%	26,104,355
Products Liability	3,895,338	4,255,338	109.2%	1.000	109.2%	4,255,338
Private Passenger Auto Liability	172,683,772	38,370,975	22.2%	0.830	18.4%	31,847,909
Commercial Auto Liability	31,091,152	6,946,647	22.3%	0.850	19.0%	5,904,650
Private Passenger Auto Physical Damage	110,275,147	19,478,549	17.7%	1.000	17.7%	19,478,549
Commercial Auto Physical Damage	10,566,121	1,673,016	15.8%	1.000	15.8%	1,673,016
Aircraft (all perils)	2,319,313	405,907	17.5%	1.250	21.9%	507,384
Fidelity	1,647,433	222,461	13.5%	1.000	13.5%	222,461
Surety	3,252,778	1,085,770	33.4%	1.000	33.4%	1,085,770
Burglary & Theft	80,443	18,849	23.4%	1.000	23.4%	18,849
Boiler & Machinery	1,510,965	185,823	12.3%	1.250	15.4%	232,279
Credit	2,091,332	46,218	2.2%	1.000	2.2%	46,218
International	236,146	46,462	19.7%	1.000	19.7%	46,462
Reinsurance Nonproportional 31+32+33	30,379,199	2,119,250	7.0%	1.000	7.0%	2,119,250
Aggregate Write-ins	4,553,916	503,089	11.0%	1.000	11.0%	503,089
<b>Total</b>	<b>730,631,549</b>	<b>159,690,283</b>	<b>21.9%</b>		<b>21.4%</b>	<b>156,241,408</b>

Note: Data excludes State Funds and Federal Flood Insurance.

(\$000s Omitted)

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Gross of Reinsurance**

**Adjustment for Age of Claim Population**

Lines of Business	Direct Incurred Loss	Direct Loss Adjustment Expenses				
		Reported Direct LAE	Reported % to Loss	Age of Claim Adjustment Factor	Adjusted LAE % Of Loss	Adjusted Direct LAE
Fire	13,350,312	2,593,218	19.4%	1.000	19.4%	2,593,218
Allied Lines	31,615,698	2,234,473	7.1%	1.000	7.1%	2,234,473
Farmowners Multiple Peril	4,156,822	530,912	12.8%	1.060	13.5%	562,767
Homeowners Multiple Peril	99,816,899	15,961,804	16.0%	1.060	17.0%	16,919,512
Commercial Multiple Peril	50,224,896	13,801,501	27.5%	1.310	36.0%	18,079,966
Mortgage Guaranty	9,024,444	390,651	4.3%	1.000	4.3%	390,651
Ocean Marine	7,037,153	899,656	12.8%	1.250	16.0%	1,124,570
Inland Marine	19,847,891	5,186,039	26.1%	1.000	26.1%	5,186,039
Financial Guaranty	3,938,953	29,433	0.7%	1.000	0.7%	29,433
Medical Malpractice	14,815,212	8,528,353	57.6%	0.910	52.4%	7,760,801
Earthquake	244,888	72,590	29.6%	1.000	29.6%	72,590
Group A&H	8,115,826	492,828	6.1%	1.000	6.1%	492,828
Credit A&H	146,424	7,080	4.8%	1.000	4.8%	7,080
Other A&H	4,879,370	459,325	9.4%	1.000	9.4%	459,325
Workers' Compensation	77,933,829	16,593,837	21.3%	0.870	18.5%	14,436,638
Other Liability	88,263,311	31,085,559	35.2%	1.060	37.3%	32,950,693
Products Liability	5,643,522	5,707,312	101.1%	1.000	101.1%	5,707,312
Private Passenger Auto Liability	179,824,132	38,805,923	21.6%	0.830	17.9%	32,208,916
Commercial Auto Liability	36,018,840	7,753,614	21.5%	0.850	18.3%	6,590,572
Private Passenger Auto Physical Damage	113,743,404	20,106,246	17.7%	1.000	17.7%	20,106,246
Commercial Auto Physical Damage	11,424,084	1,748,293	15.3%	1.000	15.3%	1,748,293
Aircraft (all perils)	4,126,181	672,382	16.3%	1.250	20.4%	840,478
Fidelity	1,505,219	270,885	18.0%	1.000	18.0%	270,885
Surety	3,484,947	1,203,723	34.5%	1.000	34.5%	1,203,723
Burglary & Theft	85,571	14,506	17.0%	1.000	17.0%	14,506
Boiler & Machinery	1,014,185	182,885	18.0%	1.250	22.5%	228,606
Credit	2,297,002	51,966	2.3%	1.000	2.3%	51,966
International	69,025	23,841	34.5%	1.000	34.5%	23,841
Reinsurance Nonproportional 31+32+33	0	0	0.0%	1.000	0.0%	0
Aggregate Write-ins	6,632,509	303,388	4.6%	1.000	4.6%	303,388
<b>Total</b>	<b>799,280,549</b>	<b>175,712,223</b>	<b>22.0%</b>		<b>21.6%</b>	<b>172,599,316</b>

Note: Data excludes State Funds and Federal Flood Insurance.

(\$000s Omitted)

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Net of Reinsurance**

**Adjusted Ratios of Expense to Claim Amount**

<b>Lines of Business</b>	<b>Adjusted Net Incurred Loss</b>	<b>General Expenses</b>	<b>Adjusted Net LAE</b>	<b>General Expense to Adjusted Incurred Loss</b>	<b>Adjusted LAE to Adjusted Incurred Loss</b>
Fire	11,950,467	2,015,686	1,514,831	16.9%	12.7%
Allied Lines	17,738,062	2,061,919	924,648	11.6%	5.2%
Farmowners Multiple Peril	3,970,483	420,773	597,755	10.6%	15.1%
Homeowners Multiple Peril	87,278,639	7,983,444	16,385,187	9.1%	18.8%
Commercial Multiple Peril	41,754,310	6,191,670	16,743,100	14.8%	40.1%
Mortgage Guaranty	8,718,406	1,850,885	392,823	21.2%	4.5%
Ocean Marine	5,722,405	644,074	1,697,104	11.3%	29.7%
Inland Marine	11,950,226	2,002,416	1,648,045	16.8%	13.8%
Financial Guaranty	3,810,286	1,263,972	46,305	33.2%	1.2%
Medical Malpractice	11,683,597	1,867,593	7,327,778	16.0%	62.7%
Earthquake	188,598	323,673	37,777	171.6%	20.0%
Group A&H	10,068,828	751,673	762,295	7.5%	7.6%
Credit A&H	122,644	99,091	9,047	80.8%	7.4%
Other A&H	4,537,820	800,369	406,960	17.6%	9.0%
Workers' Compensation	67,908,140	7,299,262	13,702,175	10.7%	20.2%
Other Liability	67,228,161	7,560,900	26,104,355	11.2%	38.8%
Products Liability	3,895,338	699,735	4,255,338	18.0%	109.2%
Private Passenger Auto Liability	172,683,772	15,480,349	31,847,909	9.0%	18.4%
Commercial Auto Liability	31,091,152	3,915,556	5,904,650	12.6%	19.0%
Private Passenger Auto Physical Damage	110,275,147	10,397,026	19,478,549	9.4%	17.7%
Commercial Auto Physical Damage	10,566,121	1,413,775	1,673,016	13.4%	15.8%
Aircraft (all perils)	2,319,313	304,779	507,384	13.1%	21.9%
Fidelity	1,647,433	313,714	222,461	19.0%	13.5%
Surety	3,252,778	1,133,586	1,085,770	34.8%	33.4%
Burglary & Theft	80,443	27,109	18,849	33.7%	23.4%
Boiler & Machinery	1,510,965	523,183	232,279	34.6%	15.4%
Credit	2,091,332	331,570	46,218	15.9%	2.2%
International	236,146	37,253	46,462	15.8%	19.7%
Reinsurance Nonproportional 31+32+33	30,379,199	1,635,743	2,119,250	5.4%	7.0%
Aggregate Write-ins	4,553,916	473,763	503,089	10.4%	11.0%
<b>Total</b>	<b>729,214,127</b>	<b>79,824,541</b>	<b>156,241,408</b>	<b>10.9%</b>	<b>21.4%</b>

Note: Data excludes State Funds and Federal Flood Insurance.

(\$000s Omitted)

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Gross of Reinsurance**

**Adjusted Ratios of Expense to Claim Amount**

<b>Lines of Business</b>	<b>Adjusted Direct Incurred Loss</b>	<b>General Expenses</b>	<b>Adjusted Direct LAE</b>	<b>General Expense to Adjusted Incurred Loss</b>	<b>Adjusted LAE to Adjusted Incurred Loss</b>
Fire	13,350,312	1,882,787	2,593,218	14.1%	19.4%
Allied Lines	31,615,698	1,961,345	2,234,473	6.2%	7.1%
Farmowners Multiple Peril	4,156,822	413,581	562,767	9.9%	13.5%
Homeowners Multiple Peril	99,816,899	7,844,359	16,919,512	7.9%	17.0%
Commercial Multiple Peril	50,224,896	6,130,392	18,079,966	12.2%	36.0%
Mortgage Guaranty	9,024,444	1,751,239	390,651	19.4%	4.3%
Ocean Marine	7,037,153	580,704	1,124,570	8.3%	16.0%
Inland Marine	19,847,891	2,087,117	5,186,039	10.5%	26.1%
Financial Guaranty	3,938,953	1,086,078	29,433	27.6%	0.7%
Medical Malpractice	14,042,554	1,839,538	7,760,801	13.1%	55.3%
Earthquake	244,888	284,006	72,590	116.0%	29.6%
Group A&H	8,115,826	524,534	492,828	6.5%	6.1%
Credit A&H	146,424	114,116	7,080	77.9%	4.8%
Other A&H	4,879,370	697,098	459,325	14.3%	9.4%
Workers' Compensation	77,933,829	7,272,759	14,436,638	9.3%	18.5%
Other Liability	87,257,980	7,100,757	32,950,693	8.1%	37.8%
Products Liability	5,643,522	668,937	5,707,312	11.9%	101.1%
Private Passenger Auto Liability	179,824,132	15,544,104	32,208,916	8.6%	17.9%
Commercial Auto Liability	36,018,840	3,744,571	6,590,572	10.4%	18.3%
Private Passenger Auto Physical Damage	113,743,404	10,371,548	20,106,246	9.1%	17.7%
Commercial Auto Physical Damage	11,424,084	1,434,356	1,748,293	12.6%	15.3%
Aircraft (all perils)	4,126,181	246,009	840,478	6.0%	20.4%
Fidelity	1,505,219	284,618	270,885	18.9%	18.0%
Surety	3,484,947	1,090,408	1,203,723	31.3%	34.5%
Burglary & Theft	85,571	29,045	14,506	33.9%	17.0%
Boiler & Machinery	1,014,185	355,689	228,606	35.1%	22.5%
Credit	2,297,002	290,975	51,966	12.7%	2.3%
International	69,025	25,700	23,841	37.2%	34.5%
Reinsurance Nonproportional 31+32+33	0	0	0	0.0%	0.0%
Aggregate Write-ins	6,632,509	596,007	303,388	9.0%	4.6%
<b>Total</b>	<b>797,502,560</b>	<b>76,252,377</b>	<b>172,599,316</b>	<b>9.6%</b>	<b>21.6%</b>

Note: Data excludes State Funds and Federal Flood Insurance.

(\$000s Omitted)

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Net of Reinsurance**

**Adjustment for Claim Distribution of GF Industry**

Lines of Business	GF Industry			Adjusted Industry Ratios Weighted by GF Claim Distribution	
	Paid Indemnity Claims	Unearned Premium	Total Claims	General	LAE
Fire	28,452,063	49,616	28,501,679	16.9%	12.7%
Allied Lines	(42,500)	-	(42,500)	11.6%	5.2%
Farmowners Multiple Peril	788,556	(34)	788,522	10.6%	15.1%
Homeowners Multiple Peril	571,149,872	64,801,529	635,951,400	9.1%	18.8%
Commercial Multiple Peril	543,492,353	3,434,883	546,927,235	14.8%	40.1%
Mortgage Guaranty	-	-	-	21.2%	4.5%
Ocean Marine	400,174	-	400,174	11.3%	29.7%
Inland Marine	3,701,703	43,103	3,744,806	16.8%	13.8%
Financial Guaranty	-	-	-	33.2%	1.2%
Medical Malpractice	259,989,217	3,581,610	263,570,827	16.0%	62.7%
Earthquake	105,825	-	105,825	171.6%	20.0%
Group A&H	108,300	5,281	113,581	7.5%	7.6%
Credit A&H	-	-	-	80.8%	7.4%
Other A&H	-	-	-	17.6%	9.0%
Workers' Compensation	2,296,604,391	7,858,374	2,304,462,765	10.7%	20.2%
Other Liability	333,218,674	72,698,643	405,917,317	11.2%	38.8%
Products Liability	2,001,156	18,276	2,019,433	18.0%	109.2%
Private Passenger Auto Liability	57,476,696	2,202,099	59,678,795	9.0%	18.4%
Commercial Auto Liability	120,538,630	2,485,443	123,024,073	12.6%	19.0%
Private Passenger Auto Physical Damage	2,443,460	2,314,175	4,757,635	9.4%	17.7%
Commercial Auto Physical Damage	1,696,336	1,883	1,698,219	13.4%	15.8%
Aircraft (all perils)	1,108,464	242	1,108,706	13.1%	21.9%
Fidelity	57,709	-	57,709	19.0%	13.5%
Surety	2,616,058	3,007	2,619,065	34.8%	33.4%
Burglary & Theft	-	-	-	33.7%	23.4%
Boiler & Machinery	816,153	1,458	817,610	34.6%	15.4%
Credit	13	-	13	15.9%	2.2%
International	-	-	-	15.8%	19.7%
Reinsurance Nonproportional 31+32+33	-	-	-	5.4%	7.0%
Aggregate Write-ins	510,837	(910)	509,927	10.4%	11.0%
<b>Total</b>	<b>4,227,234,140</b>	<b>159,498,678</b>	<b>4,386,732,818</b>	<b>11.5%</b>	<b>26.7%</b>

**National Conference of Insurance Guaranty Funds  
Review of Guaranty Fund Expenses**

**Insurance Industry Data - Gross of Reinsurance**

**Adjustment for Claim Distribution of GF Industry**

Lines of Business	GF Industry			Adjusted Industry Ratios Weighted by GF Claim Distribution	
	Paid Indemnity Claims	Unearned Premium	Total Claims	General	LAE
Fire	28,452,063	49,616	28,501,679	14.1%	19.4%
Allied Lines	(42,500)	-	(42,500)	6.2%	7.1%
Farmowners Multiple Peril	788,556	(34)	788,522	9.9%	13.5%
Homeowners Multiple Peril	571,149,872	64,801,529	635,951,400	7.9%	17.0%
Commercial Multiple Peril	543,492,353	3,434,883	546,927,235	12.2%	36.0%
Mortgage Guaranty	-	-	-	19.4%	4.3%
Ocean Marine	400,174	-	400,174	8.3%	16.0%
Inland Marine	3,701,703	43,103	3,744,806	10.5%	26.1%
Financial Guaranty	-	-	-	27.6%	0.7%
Medical Malpractice	259,989,217	3,581,610	263,570,827	13.1%	55.3%
Earthquake	105,825	-	105,825	116.0%	29.6%
Group A&H	108,300	5,281	113,581	6.5%	6.1%
Credit A&H	-	-	-	77.9%	4.8%
Other A&H	-	-	-	14.3%	9.4%
Workers' Compensation	2,296,604,391	7,858,374	2,304,462,765	9.3%	18.5%
Other Liability	333,218,674	72,698,643	405,917,317	8.1%	37.8%
Products Liability	2,001,156	18,276	2,019,433	11.9%	101.1%
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Commercial Auto Physical Damage	1,696,336	1,883	1,698,219	12.6%	15.3%
Aircraft (all perils)	1,108,464	242	1,108,706	6.0%	20.4%
Fidelity	57,709	-	57,709	18.9%	18.0%
Surety	2,616,058	3,007	2,619,065	31.3%	34.5%
Burglary & Theft	-	-	-	33.9%	17.0%
Boiler & Machinery	816,153	1,458	817,610	35.1%	22.5%
Credit	13	-	13	12.7%	2.3%
International	-	-	-	37.2%	34.5%
Reinsurance Nonproportional 31+32+33	-	-	-	0.0%	0.0%
Aggregate Write-ins	510,837	(910)	509,927	9.0%	4.6%
<b>Total</b>	<b>4,227,234,140</b>	<b>159,498,678</b>	<b>4,386,732,818</b>	<b>9.7%</b>	<b>24.5%</b>