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Supporting
a system of
policyholder protection:
IT'S IN OUR MISSION.

2007 ANNUAL REPORT

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SUPPORTING A SYSTEM OF POLICYHOLDER PROTECTION: It's in our mission.

2007 was an active and dynamic year for the National Conference of Insurance Guaranty Funds (NCIGF), one that built on the momentum of 2006 to end 2007 with several important accomplishments and milestones.

In 2007 the NCIGF released the first-ever *Review of Property & Casualty Insurance Guaranty Fund Expenses*. It was also a year of successful communications that raised the profile of the NCIGF and the property and casualty guaranty fund system through numerous articles in trade publications and presentations to trade groups and members of Congress and other policymakers.

2007 was an active and dynamic year for NCIGF, one that built on the momentum of 2006 to end 2007 with several important accomplishments and milestones.

In addition, the organization took major steps toward achieving stronger state insolvency laws and provision of information management services. Altogether, these activities underscored to key audiences the value of the guaranty fund system in the protection of policyholders.

We invite you to join us in reviewing some of the highlights of an exciting year. ■

VISION AND MISSION STATEMENTS OF THE NCIGF

Vision. To be the definitive national leader on matters related to insolvency and its consequences to policyholders and claimants protected by the state-based property and casualty guaranty fund system.

Mission. To bring the greatest possible value to the member state property and casualty guaranty funds and the state-based guaranty fund system in operational support, communications and public policy development.

SHARED VALUES

OF THE NCIGF AND ITS MEMBER PROPERTY
AND CASUALTY GUARANTY FUNDS

Policyholder Protection The state guaranty funds exist to fulfill their statutory role to provide protection to policyholders and claimants of insolvent insurers.

Public Policy Purpose and Fact-Based Strategies Strategies are based on the public policy purpose of the state guaranty funds. Tactics will consist of thoughtful, deliberate and fact-based steps by members and the NCIGF staff to address the critical business issues facing the NCIGF, its member guaranty funds and the policyholders they serve.

Member Involvement The guaranty fund system and the NCIGF can achieve their potential only with the active involvement of committed, engaged and informed members.

Collaboration and Cooperation The NCIGF and members of the guaranty fund system will seek to work among its members, receivers, regulators, industry organizations and others to achieve common goals.

Low Cost, Highly Effective Operations Through the continuing development of high quality staffs and utilization of up-to-date technology, the NCIGF and its member guaranty funds continually strive to provide cost-effective value to policyholders, claimants and other stakeholders.

LETTER FROM THE NCIGF BOARD CHAIRMAN



David C. Edwards,
Chairman

It has been a rewarding year to be involved with the happenings at the NCIGF. I thank my peers for allowing me to represent them on the NCIGF Board of Directors and am honored to serve as chairman of that board. To each of you, I pledge a continuing commitment to devote the time and effort necessary to serve to the best of my ability, for as long as I serve.

Let me tell you about some of the rewards I experienced during the past year. It all started at last year's annual meeting, where we experienced the kick-off of the member involvement in the strategic planning process. The surveys had been sent and received, the answers compiled. It was time to get down to the nitty-gritty, the actual work needed to begin to understand how we could improve our system. The enthusiasm of the leaders of the working groups that were established was exciting to see, and it was especially rewarding to see it continue throughout the year. Another special memory from the annual meeting was the manifestation of appreciation for Mike Marchman as he completed his second term as chairman of the board, having dealt successfully with issues that were in no way anticipated when he was initially elected.

My rewards continued into the summer, as two NCIGF meetings were conducted in Denver, the city I'm proud to call my home. First, in June the NCIGF staff spearheaded an Insolvency Technology Conference. Then, only a month later, the attorneys came to town for the NCIGF Legal Seminar and dispensed information about things like electronic discovery and new case law.

There were more rewards to be experienced at the NCIGF Fall Workshop in San Antonio. Fund managers tended to business first; and then the claim managers took over and made sure that all who were present were made aware of emerging issues and how to deal with them cooperatively and, to the extent possible, uniformly.

In addition to the major events mentioned previously, I was able to experience numerous meetings of committees, working groups and, of course, the NCIGF Board of Directors. I couldn't help but be impressed with the amount of work performed by so many individuals, much of which was in addition to the "real jobs" for which they were responsible in the insurance industry or the guaranty fund system. I continued to be rewarded as I recognized the scope of the many improvements that were realized or are soon to come. Things like corporate governance, public policy, by-laws changes, a federal charter, guaranty fund expenses, model laws, business plans, mission and vision statements, publicity and much, much more became everyday topics to be explored, with decisions made and action taken with regard to how each was to be addressed.

However, as the year progressed and so very many tasks were undertaken, there was always a recurring theme, an undercurrent that seemed to be omnipresent no matter what else might be in process at any given time. That theme was strategic planning.

I can't say enough about the efforts of Deb Wozniak and Steve Durish, co-chairs of the Strategic Planning Committee, as they have refused to let the momentum gained at last year's annual meeting slow down, much less die. Likewise, the working group leaders, with the support of the members of their groups, have achieved great things with their concentration on goals, objectives and tactics. My reward, as I have watched the strategic planning effort's birth and growth, has been the realization of how many committed individuals care not only about their own state and its issues, but also about the guaranty fund system as a whole.

It is overwhelming to think about how much has been accomplished; and I am buoyed by those accomplishments when I think of the daunting tasks yet to be performed. The rewards of the past year give me confidence that what needs to be done will be done and that the rewards of the coming year will surpass what we've seen to date.

Thanks for your help in providing my rewards during the past year. Let's all work to enjoy new and greater rewards together in the months ahead.

David C. Edwards
Board Chairman

LETTER FROM THE PRESIDENT

Reflecting on the new vision and mission statements for the NCIGF and the State Property and Casualty Guaranty System, I am especially drawn to our fundamental organizational purpose: to be the “national leader on matters related to insolvency” and to “bring the greatest possible value to the member state property and casualty guaranty funds and the state-based guaranty fund system in operational support, communications and public policy development.”

Strategic management of the NCIGF has been at the heart of our success in 2007. Guiding our progress along the way has been our strategic business plan. The plan, progress on which I report regularly to our board, enables us to identify and focus on key business initiatives, appropriately allocate budget and human resources to carry out initiatives and move the NCIGF mission forward.

In 2007 we completed the *Review of Property & Casualty Insurance Guaranty Fund Expenses*. More than two years in the making, the review showed guaranty fund expenses compared favorably with analogous property and casualty industry expenses for the four year period from 2001 through 2004. More important, completion and publication of the project definitively indicates the commitment of our guaranty fund members to take responsibility for the efficiency of the system they manage.

Our Congressional Education Program realized its greatest success during a year of renewed focus on optional federal charter legislation. The NCIGF, together with our sister organization, the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), worked to preserve the state-based guaranty fund system in the latest optional federal charter bills by educating members of Congress about the function of the guaranty funds and their value to policyholders.

Also on the policy front, the NCIGF lent its voice in dialog that helped spur the National Conference of Insurance Legislators’ (NCOIL) adoption of a new property and casualty insurance guaranty fund model law. NCOIL’s action is significant because it moves the debate about insolvency public policy to the halls of state legislatures – the definitive arbiter, at least for now, of insurance public policy.

Another significant accomplishment in 2007 was the launch of the first phase of the new NCIGF Web site. Our new site is the first step in expanding the informational resources we provide, a key factor in promoting better public understanding of guaranty fund and insolvency issues. In the coming year, we will extend our Web site redesign to our members-only area to increase efficiencies generated by guaranty association reporting of financial information and the sharing of that information with receivers.

2007 saw a huge milestone for the guaranty fund system: completion of the strategic plan, *Putting Consumers First: The State Guaranty Funds Moving Forward Together*. The plan, which received enthusiastic approval by the NCIGF board in November, voices a strategic and tactical vision for the guaranty fund system and the NCIGF, and provides a road map for the future of the consumer safety net. As 2007 concluded, implementation of the plan had already begun.

While challenges and rewards have been plentiful, there is still much to do to fulfill the mandate of our new vision and mission statements. NCIGF will continue to develop our member support in key functions – legal, operational, public policy management and communications – as we seek new ways to help our members meet the demands of an ever-changing insolvency landscape. In this way, we will fulfill the all-important goal set for us by policymakers almost 40 years ago: protecting policyholders.

I am proud to lead a staff and support a membership that shares this commitment.

Roger H. Schmelzer
President & CEO



Roger H. Schmelzer,
President & CEO

2007 ACCOMPLISHMENTS

NCIGF Works on Front Lines on Capitol Hill

On May 24, 2007 U.S. senators Tim Johnson (D-SD) and John Sununu (R-NH) introduced S.B. 40, The National Insurer Act of 2007. Later in the year, Congressman Ed Royce (R-CA) introduced an identical piece of legislation in the U.S. House of Representatives.

In the months leading up to the drafting of these bills, key congressional staff sought the expert testimony of NCIGF and NOHLGA for advice on the intricacies of guaranty fund law and operations.

Working together, the NCIGF and NOHLGA made suggestions that greatly contributed to sound and workable legislation that in the first version of the bill preserved the state guaranty fund system that has reliably protected consumers for nearly 40 years.

Our ability to help shape this important legislation was an enormous victory on behalf of policyholders.

While NCIGF has no position on the optional federal charter itself, regulatory structure has a potentially profound impact on insurance policyholders. This is why the NCIGF went – and will continue to go – to great lengths to tell the “guaranty fund story” to lawmakers and their staffs and answer questions so policymakers better understand the guaranty fund system, its proven record of success, and the value it brings to policyholders. ■

AT THE HEART OF OUR MISSION: Member Support

Central to the NCIGF mission is the value we deliver to our member guaranty associations – not just in periods of heavy insolvency activity, but all the time.

With NCIGF membership comes an alliance with the national guaranty fund community and all its resources.

NCIGF members also receive the support and counsel of the NCIGF staff: leading experts in insolvency issues, law and policy and support disciplines, such as communications and information technology.

“With NCIGF membership comes an alliance with the national guaranty fund community and all its resources.”

In 2008 and beyond, the organization will continue to provide programs and initiatives that assist members with practical, hands-on support in the areas of IT, UDS-related issues, seminars and meetings, among others.

It’s all part of delivering on the NCIGF promise of member support. ■

ACCOMPLISHMENT 2007: Guaranty Fund Expenses Compare Favorably to Industry's, Independent Review Shows

In November, the NCIGF released the groundbreaking *Review of Property & Casualty Insurance Guaranty Fund Expenses*, by the independent actuarial firm, Actuarial, Insurance Management Services, Inc.

The fruit of more than two years of work, the review for the first time provides an analysis of all guaranty fund expenses from all states compared to analogous property and casualty industry expenses for the period from 2001 through 2004. The review shows that property and casualty guaranty funds expenses compare favorably to those of industry in the area of claims paying during that period.

The review found:

- ▶ The loss adjustment expense ("LAE") ratio for guaranty fund loss expenses was roughly 3 to 4 percentage points higher than the industry measures (23.8 percent compared to industry ratios of 18.0 – 20.6 percent), whereas the general expense ratio for all other guaranty fund expenses was lower than the industry ratio by roughly the same amount (4.9 percent compared to industry ratios of 7.7 – 9.9 percent).
- ▶ Guaranty fund ratios fell in the range of industry ratios both on an overall basis and for the workers' compensation line of business, which represented 70 percent of total guaranty fund payout. The guaranty fund ratio of claims expenses for workers' compensation was 18.3 percent, which compared favorably to industry ratios, which ranged from 14.0 percent to 20.0 percent. ■

“The Review of Property & Casualty Insurance Guaranty Fund Expenses is an important step forward in the guaranty fund's stewardship of the national system of consumer protection for consumers.

While this first report in our series is not the 'final word' on guaranty association-industry cost-comparisons, we do believe it offers insight into the operational cost-effectiveness of guaranty funds, and we're confident future reviews will strengthen our analysis.”

– Roger H. Schmelzer

ACCOMPLISHMENT 2007:

NCOIL Adopts New Guaranty Fund Model Law

On November 17 the National Conference of Insurance Legislators (NCOIL) adopted a new property and casualty insurance guaranty fund model law. The move offered clear evidence of the effectiveness of the NCIGF in educating state policymakers about the guaranty fund system and the benefits it brings to policyholders. It also shows the role education plays in helping preserve the guaranty fund system.

In the days leading up to the vote, NCIGF's President and CEO Roger Schmelzer and Vice President Legal & Regulatory Affairs Barb Cox were on hand to speak with

NCOIL members on the merits of the proposal.

Schmelzer summed up the significance of the accomplishment for the guaranty fund system.

"NCOIL has given state legislators the tools they need to ensure that the guaranty fund safety net remains strong," he said. "This is great news for policyholders and claimants, who for nearly 40 years have enjoyed the consumer protection accorded by the guaranty fund system." ■

NAIC Moves Changes to UDS "B" and "D" Record Formats Forward

In December 2007, the National Association of Insurance Commissioners (NAIC) gave preliminary approval to recommend changes to the UDS "B" unearned premium and "D" financial record formats. Final approval is expected in the spring of 2008. The recommendation originated from the NAIC UDS Technical Support Group (UDSTSG), a group of receivers and guaranty fund members who came together to formulate a solution to reporting issues.

This was a significant accomplishment, one that well illustrates that guaranty funds and the receivership community can and do work together to seek creative, mutually beneficial solutions to daunting challenges.

The enhancements to the "B" record improve policyholder services by providing a better reporting of unearned premium information from the receiver to the guaranty funds, clearing the way for policyholders to get their unearned premium claims paid sooner.

This accomplishment was just one in a long list of collaborative successes UDSTSG members – representatives from guaranty funds and receiverships alike – have achieved through creativity, determination and commitment to common purpose.

UDS provides an avenue for the guaranty funds to communicate to numerous receivers in a uniform way; adoption of the revised "D" record enhances their ability to do

just that. The "D" record provides a unified and uniform method of presenting guaranty association billings to the receivers on a quarterly basis. It contains information on losses, loss adjustment expenses and other expenses paid from an inception-to-date, year-to-date and quarter-to-date perspective. Changes made included the addition of large deductible data as well as other enhancements.

The adoption of the revised "D" record will allow guaranty associations to produce an electronic file containing the quarterly summarized claim activity and to send that report electronically to the receiver. It creates efficiencies for the system by allowing programming of the report layout, thus reducing or eliminating the human element of report preparation. Additionally, it organizes the reporting to meet certain reinsurance requirements which will enhance estate recoveries, enhances cash flows of the guaranty associations via a more efficient billing process, reducing expenses by automating a very manual process for guaranty associations as well as other smaller contributions to the system.

This development represents a significant step in dealing with issues addressed in the NCIGF strategic plan, and moves us closer to the goal of uniform reporting.

In 2008 the NCIGF, working with the UDSTSG, will spearhead promotion and education that will drive acceptance and wider use of this essential reporting tool. ■

NCIGF MEMBER VALUE IS SEEN IN SEVERAL KEY AREAS:

Communications Our communications program spurs an increased awareness of the guaranty fund system and the good it brings to those we serve.

Through trade press placements, our publications and media networking the NCIGF is keeping guaranty associations, industry and trade associations up-to-date on important information about insolvency issues.

2008 will build on the momentum established in 2007 as we continue creating awareness of the guaranty fund system among the public, media and policymakers.

Coordinating Committees The NCIGF organizes and staffs coordinating committees that assist in administering multi-state insolvencies that involve several guaranty funds. These committees provide critical assistance and support by monitoring developments and giving guaranty funds a voice in the proceedings.

In part through Coordinating Committee efforts, early access distributions this year alone topped out at about \$776 million. Every dollar distributed from the insolvent estates reduces assessments against member carriers and the costs to consumers and taxpayers.

Financial and Operational Oversight Over the past year, the NCIGF has refined and extended its operational and financial reporting infrastructure.

In 2007 the NCIGF continued to make improvements on the business and operational side, including the expansion of corporate practices established in 2006 to ensure solid internal controls. A rigorous assessment of processes led to the development of an internal control document used in outlining the financial environment and the required controls such as reconciliations, approvals and segregation of duties. Workflows were documented and provided a more in-depth understanding of the environment, allowing an assessment of risks and development of methods to mitigate the risk of errors.

The NCIGF also began providing the board of directors more detailed descriptions of financial results on a quarterly basis including a financial forecast for the year. The financial forecast helps the NCIGF report the anticipated cash flows for the remainder of

the year, providing the board and management with an annual perspective of its financial position each quarter.

Public Policy Management NCIGF staff, under the direction of the Public Policy Committee, helps shape statutory and regulatory solutions related to guaranty funds.

Thanks in part to public policy-related efforts, provisions from the NCIGF Model Guaranty Association Act have been adopted in a growing number of states. Our model act represents the latest and best collective wisdom of the guaranty fund community concerning how to best protect those least able to absorb an uninsured loss, while at the same time placing reasonable limits on that protection.

This year the NCIGF has also provided technical assistance in reviewing various state liquidation act proposals, in some cases comprehensive overhauls of existing laws, derived from the Insurer Receivership Model Act (IRMA).

The NCIGF does not “lobby.” However, we are frequently involved as a “technical expert” in support of efforts to enact critical insolvency legislation.

Other public policy management member services include:

Liaison to NAIC NCIGF membership gives our member associations a collective voice at the NAIC. NCIGF staff’s tireless efforts throughout 2007 have done much to support guaranty fund positions related to the NAIC’s work on its model liquidation act and guaranty fund act legislation.

Notably, NCIGF participated in discussions concerning accreditation standards for liquidation act provisions out of the NAIC model act, The Insurer Receivership Model Act (IRMA). After intensive debate in which a number of interested parties weighed in, the Financial Regulation Standards and Accreditation Committee (FRSAC) opted to expose a generally worded standard calling for an insolvency scheme. The standard would not call for strict adherence to the language in the IRMA. This was a signifi-

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cant development that will permit states to make their own public policy determinations on liquidation act provisions that are best for their residents.

The NCIGF also worked with regulators to develop policies and procedures for handling non-public personal data by liquidators and property and casualty guaranty associations. The NAIC Working Group adopted protocols substantially based on a draft prepared by the NCIGF.

The NCIGF participated in the NAIC working group charged with updating NAIC's Receiver's Handbook. We also participated with a NAIC working group to develop a data privacy and security policy and procedures to protect non-public personal information used in the payment of claims. The Receivership and Insolvency Taskforce adopted the proposed policy and is giving interested parties additional time to offer comments on the proposed procedures. The policy and procedures are substantially the same as those earlier adopted by the NCIGF and distributed to member associations. It is expected that, once approved, the procedures will be included in the NAIC Receiver's Handbook.

The NCIGF also participated in the continuing debate over reinsurance collateral requirements for non-licensed foreign reinsurers doing business in the United States. We pointed out that "based on the significant impact collateral appears to have on estate recoveries, that any reduction in current collateral requirements will directly and considerably add to the cost of guaranty association protection that is, by statute, ultimately passed on to the public."

Congressional Education Program In 2001 the NCIGF began a program of educating and informing key members of Congress and their staffs about the functioning of the state-based guaranty association system and its record of success.

Throughout 2007 the NCIGF continued to serve as a technical resource to Congressional staff members on issues affecting guaranty associations, educating them about the operation of the state-based property and casualty insurance guaranty association system and its protection to policyholders.

During 2007 NCIGF conducted personal briefings with 61 Congressional and Bush Administration personnel, including 13 members of Congress, with much of our work focused on providing input to the

members of Congress who were drafting optional federal charter legislation.

The NCIGF's Congressional Education Program has raised the awareness of Congress about the proven record of success that the state-based guaranty associations have had in protecting insurance consumers.

Educational Forums for the guaranty fund community. The NCIGF staff spearheads efforts each year to host a wide range of informative educational meetings. Meetings during 2007 included presentations on such topics as IT security, human resource practices, claims, the legal environment and other topics designed to better equip the guaranty fund community to work more effectively, efficiently and economically. The NCIGF hosted four educational meetings during 2007; these brought together nearly 350 participants.

Data Security NCIGF servers provide a secure clearinghouse of data transmissions between liquidators and guaranty funds. The NCIGF uses its secured ftp server to accept and disseminate confidential policy, claim and unearned premium data for multi-state insolvencies. The NCIGF's commitment to seamless, consistent and secure data transmission plays a key role in the timely payment of claims and unearned premiums.

In 2007 the Secured UDS (SUDS) process was warmly received by the guaranty fund system. During the UDS Technical Support Group meeting in March 2007, the group asked the NCIGF to enable upload functionality of 'C' records. That request has prompted the development of the SUDS to give members the ability to upload UDS files and for the server to automate file movement to the correct insolvency using file naming. As of December 31, 2007, 37 of an eligible 56 funds have agreed to use the NCIGF secured ftp site to transmit their UDS records to receivers. Five receivers representing nine estates have agreed to accept the guaranty fund UDS files using the SUDS process and the list is expected to grow.

In 2007, the NCIGF updated the data security and privacy procedures to address all data privacy concerns of our members. We continue to lead the efforts to build support for security-related policies that will be implemented by all organizations involved in the handling of insurer insolvencies. ■

ACCOMPLISHMENT 2007:

New and continuing initiatives helped make 2007 a year of accomplishments at the NCIGF.

HIGHLIGHTS INCLUDE:

Insolvency Tools for Guaranty Funds

In 2007, the NCIGF prepared the *Insolvency Notebook*, a compilation of procedures, checklists and sample forms, many drawn from “lessons learned” in past insolvencies. This collection of tools will help receivers and coordinating committees communicate more effectively and better prepare us to address issues in future insolvencies.

The Notebook will undergo further revision in 2008; it will be used to promote key Strategic Planning Committee tactics in areas of education and communication on guaranty fund issues.

Financial Information Reporting System Template (FIRST)

The NCIGF rolled out Financial Information Reporting System Template (FIRST) in 2007. FIRST, a turnkey Windows-based application geared toward allowing guaranty funds to submit assessment, capacity and financial information, simplifies data entry, enhances quality control and provides automated reporting of the information to the NCIGF via the Internet. Feedback from guaranty funds during 2007 has contributed to additional enhancements in FIRST; ultimately FIRST will accumulate data necessary to provide the insurance industry and trade associations with timely, accurate system-wide assessment, capacity and financial information.

Early Access

Supported by NCIGF staff, the NCIGF legal committee in 2007 furthered work on a model early access plan and agreement, including a model agreement for the pre-payment of workers’ compensation claims. The document uses the existing NAIC model as a base, and has been updated to reflect favorable portions of the Insurer Receivership Model Act (IRMA). Throughout 2008 the model early access plan and agreement will continue to be refined.

UDS

In 2007 the NCIGF provided staff support to two Uniform Data Standards (UDS) working groups of the National Association of Insurance Commissioners (NAIC). The NCIGF facilitated the 2007 accomplishments of these working groups, which are made up of members from the guaranty funds, receivers and software vendors. UDS-related accomplishments include:

The UDS Financial Reporting Manual was completed; it is now under review by the NCIGF Accounting Issues Committee for comment.

The UDS record formats for the “B” and “D” records were revised and approved by the NAIC in December 2007, with expected rollout/implementation during 2008 and early 2009.

Information Technology-related documents

In 2007, the NCIGF’s IT team through its support of NCIGF committees spearheaded the finalization of key documents:

- ▶ 2007 Document Imaging Guidelines
- ▶ Document Management Systems Options
- ▶ Insolvency Processing Systems Review
- ▶ Security Policy and Procedures (in conjunction with the NAIC).

Claims System Review NCIGF staff accompanied guaranty fund representatives on visits to several member organizations and claims system providers in 2007. The objective was to research common functionality among claims systems.

As part of the project, the Automated Systems Committee created a subcommittee to issue a report intended to provide a baseline for claims handling systems in use today as well as poten-

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tial improvements in the future. The committee solicited additional member input to enhance the final result. The project's benefit to members will be a much better report encompassing common system features, system reporting, and advanced functionality. The NCIGF made the findings available to members in June 2007.

Document Imaging Systems Guidelines

In 2007, the Document Imaging subcommittee of the Automated Systems committee, supported by the NCIGF, developed a comprehensive publication on Document Imaging Systems. The report provides members with imaging system guidelines; it also provides members with several system provider options that reflect member experience and input; in addition, the options have been categorized into tiers based on various factors such as cost and functionality. The guidelines were made available to NCIGF members in June 2007.

Meetings and Conference Calls

In 2007, the NCIGF coordinated 178 conference calls and 42 off-site meetings. ■

THE STRATEGIC PLANNING COMMITTEE INITIATIVE

Created in January 2006 by the NCIGF Board of Directors at its Board Planning meeting in Orlando, the Strategic Planning Committee initiative covered much ground in 2007.

Following the initial work of surveying, interviewing and compiling results early in 2007, the SPC committee convened to begin the strategic planning phase of the project. The consensus of the 16-member group was that focusing on seven key areas provided the best and most efficient means of examining, evaluating and making recommendations in important areas of potential improvement. The areas were:

- ▶ Gaining a consensus on the primary guaranty fund mission
- ▶ Communications/public relations/education
- ▶ Preparing guaranty funds for change
- ▶ Operations and support
- ▶ Board of directors issues
- ▶ Uniformity
- ▶ Coordination and cooperation

In total, the workgroups conducted more than 30 meetings. Drawing from issues identified by the SPC's Final Report in their respective areas, the groups conducted wide-ranging discussions on issues and offered recommendations for improving performance in these areas.

The workgroups compiled working group reports as the final fruit of extensive discussions. These reports, which chronicle the discussions about issues and document-related recommendations, provide a window into the thinking and strategic direction of the workgroups. Taken together, the reports also were the genesis for the overall strategy that later would be embodied in the SPC's final strategic plan and many of the plan's supporting tactics.

“By undertaking the SPC initiative, the state property and casualty guaranty funds have firmly embraced their statutory obligation to serve policyholders as efficiently and effectively as possible. While tried and tested, the system recognizes its obligation to meet the challenges of the increasingly complex 21st century insurance marketplace.”

– Roger H. Schmelzer

From the working groups report emerged, *Putting Consumers First: The State Guaranty Funds Moving Forward Together*. This strategic plan, which received an enthusiastic approval by the NCIGF board in November 2007, voices a vision for the state-based guaranty fund system and the NCIGF, the system’s support organization.

In 2008 and beyond, the strategic plan will guide an ongoing assessment and evolution of the guaranty fund system and help further define the role of the NCIGF. It will also drive many of the changes that will continually improve the system’s ability to deliver on the mandate that was given to it by policymakers nearly 40 years ago – to protect policyholders and claimants. ■

PUBLIC POLICY COMMITTEE

The charge of the NCIGF Public Policy Committee is to educate, energize and provide counsel to the property and casualty insurance industry and policymakers who are considering guaranty fund issues.

Created in 2006, the committee brings the expertise of NCIGF staff to discussions and debates related to guaranty fund policy, informing reforms of state guaranty fund and insolvency laws. In this way the Public Policy Committee plays a key role in protecting against erosion of the guaranty fund safety net.

The committee enables the NCIGF to take a more systematic, integrated and unified approach to guaranty fund and insolvency public policy-making, and shortens response time.

The Public Policy Committee also allows the NCIGF to serve as a policy “watchdog,” a key part of educating, informing and shaping policy debates.

Through 2007 and beyond, the Public Policy Committee will bring an agile, well-grounded “issue management” approach to the insolvency arena, further positioning the NCIGF as “trusted expert” in property and casualty insolvencies and the guaranty fund system. ■

COMMUNICATIONS

The NCIGF communications program netted several key accomplishments in 2007.

Our program, rooted in our operational business plan, educated targeted and general audiences about the property and casualty guaranty fund system, greatly expanding awareness among key stakeholders.

In September, Roger Schmelzer traveled to the offices of three major industry publications to talk with editors about the guaranty fund system and the NCIGF as part of our 2007 “media tour.”

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Our Web site redesign was also a 2007 milestone. Changes to the new NCIGF Web site made it more media-friendly with the addition of “media room” and postings of other materials that are enabling the NCIGF to get the word out about guaranty funds and the good work our members do.

Other highlights include NCIGF placements in the following trade press forums:

Risk & Insurance article Roger Schmelzer drafted an article articulating the merits of the guaranty fund system, underscoring the fact that the system is taking responsibility for confronting the challenges that face it. The article ran in the June issue. A second piece, “Guaranty Funds: A Public Policy Success,” appeared in the September issue as part of a “point-counterpoint” column.

Washington Legal Foundation Roger Schmelzer and Mark Steckbeck published a 2,500-word article, “Deliberative Process Needed to Reform Insurance Guaranty Funds” in the Washington Legal Foundation’s Legal Backgrounder series in July.

National Underwriter NCIGF placed a “Final Say” editorial in the Oct. 8 issue of National Underwriter, “Protect the Integrity of State Guaranty Fund Funds.”

Insurance Journal article Roger Schmelzer’s article, “Guaranty Fund System Continues to Deliver,” appeared in the December 3 issue of Insurance Journal magazine.

The Insurance Receiver Barb Cox and Nick Crews submitted “A Long and Winding Road: Large Deductible Begins Moving Through the States” to IAIR’s *The Insurance Receiver*.

Twice a month we publish *The Insolvency Briefing*, an e-bulletin that provides updates on major developments. The NCIGF’s *Quarterly Commentary* offers in-depth analysis on insolvency-related issues each quarter. Our issue backgrounders and white papers, including our Insolvency Trends series, explore guaranty fund- and insolvency-related issues in-depth, and our annual compilation of guaranty association law cases brings our members the very latest in legal development and case law.

This year we published six NCIGF Backgrounders, 22 editions of the Insolvency Briefing and four Quarterly Commentaries.

In November, the NCIGF renewed our strategic alliance with the Insurance Information Institute (I.I.I.), a relationship that in 2008 will continue to bolster our communications and policy initiatives and help us reach key audiences through the I.I.I.’s expertise, staff resources and database of industry information.

Throughout 2008, the NCIGF communications team will put a full-court press on showcasing the guaranty fund system as a proven, effective and efficient way to protect policyholders to the public, industry, trade and business media and policymakers. ■

NCIGF COMMITTEES

Each of NCIGF's committees plays an integral part of the functioning of the NCIGF.

Accounting Issues Committee

The Accounting Issues Committee monitors accounting and UDS issues and advises the NCIGF membership on matters related to financial reporting. These activities include AICPA and NAIC compliance, providing relevant information to the property and casualty industry, and assisting in the development and implementation of UDS Financial Reporting formats.

Audit Committee

The Audit Committee oversees the NCIGF financial reporting and the annual audit of the NCIGF financial statements.

Automated Systems Committee

The Automated Systems Committee develops and implements the architecture of electronic communication for our community. It assists with disaster-recovery programs, UDS Claims and Financial Reporting formats, and develops electronic communication and system procedures for the guaranty fund network.

Budget Committee

The Budget Committee provides consultation and guidance on budgetary issues including the review and recommendation of the NCIGF annual budget to the board of directors.

By-laws Committee

The By-laws Committee makes informed recommendations for changes to the NCIGF by-laws for consideration by the board of directors.

Communications Committee

The Communications Committee provides guidance and oversight of NCIGF communications activity.

Coordinating Committee

The Coordinating Committee manages the coordination and facilitation for multi-state insolvencies. The work of the Coordinating Committee is key to the mission of the NCIGF and the ability to bring equitable resolution to insolvency issues.

Corporate Governance Committee

The Corporate Governance Committee reviews governance practices and report recommendations and priorities for the NCIGF board.

Education Committee

The Education Committee develops educational programs and model training curricula for the NCIGF membership.

Legal Committee

The Legal Committee monitors developing legal issues, provides counsel, fulfills requests for amicus briefs, prepares analysis of insolvency legislation, and conducts the NCIGF Legal Seminar, among other responsibilities.

Nominating Committee

The Nominating Committee nominates candidates for election to the NCIGF Board of Directors. It also nominates members to the NCIGF board's Executive Committee.

Operations Committee

The Operations Committee works to develop recommendations intended to increase the efficiency, uniformity and operational effectiveness of the member guaranty associations.

Public Policy Committee

The Public Policy Committee is charged with educating and informing the property and casualty insurance industry about issues related to state guaranty fund policy and laws.

Rapid Response Team

The Rapid Response Team provides direction to NCIGF staff on public policy matters in situations where issues are time-sensitive and cannot be dealt with at the regularly scheduled meetings of the Public Policy Committee.

Site Selection Committee

The Site Selection Committee is charged with approving sites for some of the larger NCIGF events, including the annual meeting, legal seminar, and November workshop.

Strategic Planning Committee

The Strategic Planning Committee was formed to gain a better understanding of issues that have challenged the guaranty fund system as the result of recent significant commercial-lines insolvencies. ■

FINANCIAL REPORT

The NCIGF's financial health continues to be strong as net assets grew to \$893,452 during 2007 representing an increase of \$294,727 over 2006. Undesignated net assets increased by \$120,814 and the board designated contingency fund increased by \$173,913 to \$665,997.

Cash at December 31, 2007 and 2006 was \$1,047,705 and \$674,303, respectively. The operating cash increased during 2007 by \$199,489 to \$381,708 at yearend reflecting the positive results of operations.

The 2007 membership dues of \$2.8 million represent a budget based on three levels of activity: transactional, anticipate costs of doing business to meet the "day-to-day" expectations of members, the higher level of association management and member services contemplated in the 2007 Operational Goals and Objectives, and additional funding necessary for specific initiatives and projects. Operating and capital cash disbursements for 2007 were approximately \$2.6 million representing a savings of slightly over \$200,000 when compared to the budget for 2007.

NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS STATEMENTS OF FINANCIAL POSITION

December 31, 2007 and 2006
(In thousands)

ASSETS

Current Assets	2007	2006
Cash	\$ 1,048	\$ 674
Other	48	111
<i>Total current assets</i>	1,096	785
Property & Equipment, Net	58	55
Deposits	8	10
<i>Total Assets</i>	<u>\$ 1,162</u>	<u>\$ 850</u>

LIABILITIES & NET ASSETS

Liabilities	2007	2006
Current Liabilities	\$ 230	\$ 199
Long-Term Liabilities	39	52
<i>Total Liabilities</i>	269	251
Net Assets		
Undesignated	227	107
Board Designated (Contingency Fund)	666	492
<i>Total unrestricted net assets</i>	893	599
<i>Total liabilities and net assets</i>	<u>\$ 1,162</u>	<u>\$ 850</u>

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2007 and 2006
(In thousands)

STATEMENT OF ACTIVITIES

Revenue	2007	2006
Membership dues	\$ 2,833	\$ 2,833
Investment income	76	59
Other Income	105	109
<i>Total Revenue</i>	3,014	3,001
Expenses		
Wages, benefits and payroll taxes	1,543	1,360
Professional fees	467	549
Other operating expenses	659	626
<i>Total expenses</i>	2,669	2,535
Change in Net Assets before Federal Taxes	345	466
Federal Taxes	51	44
Change in Net Assets	294	422
Net Assets, Beginning of Year	599	177
Net Assets, End of Year	\$ 893	\$ 599

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007 and 2006
(In thousands)

INCREASE IN CASH

Cash Flows from Operating Activities	2007	2006
Cash received from members	\$ 2,895	\$ 2,803
Cash paid to suppliers and employees	(2,639)	(2,754)
Investment and other income	181	168
Federal taxes paid	(41)	(51)
<i>Net cash provided by operating activities</i>	396	166
Cash Flows from Capital Expenditures	(22)	(26)
Net Increase in Cash	374	140
Cash, Beginning of Year	674	534
Cash, End of Year	\$ 1,048	\$ 674

BOARD OF DIRECTORS DESIGNATED CONTINGENCY FUND

The Board of Directors desires that the organization develop a contingency fund capable of sustaining operations for a minimum period of six months. In its May meeting, the Board approved that level of funding to be \$1,100,000 and accordingly approved an annual increase of \$50,000 to be included in the 2008 NCIGF budget. During its November meeting, the Board further instructed the NCIGF to contribute any surplus funding to the contingency fund on an annual basis. Surplus has been defined as dues and investment income in excess of operating and capital expenditures. Contributions to the contingency fund during 2007 of \$173,913 included investment income, the budgeted increase and the surplus generated from the results of operations for 2006. The contingency fund at December 31, 2007 was \$665,997.

PROGRESSION OF BOARD DESIGNATED CONTINGENCY FUND

For the Years Ended December 31, 2007 and 2006
(In thousands)

BOARD DESIGNATED CONTINGENCY FUND

Contingency Fund	2007	2006
Beginning of year	\$ 492	\$ 100
Budgeted contribution	36	80
Board designated contribution	122	300
Interest	16	12
End of year	\$ 666	\$ 492

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