

Supporting the Insurance Promise, Protecting Policyholders:

An Overview of the Property and Casualty Insurance
Guaranty Fund System





Policyholder Protection in Every State and Territory

American insurance consumers are protected by a nationwide system of insurance guaranty associations (sometimes also called “guaranty funds”). State lawmakers and insurance regulators formed this system 50 years ago to pay the covered claims of the average property and casualty and life and health and annuity insurance policyholder if an insurance company fails.

This guaranty fund “safety net” supports the insurance promise by assuring the viability, commitments and reputation of the property and casualty insurance industry. In this way, the system adds substantial value to both the insurance industry and its customers.

Guaranty funds operate in every state and territory; they are coordinated by two national organizations: the National Conference of Insurance Guaranty Funds (NCIGF) and the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA).

Guaranty Funds and the Current System of Insurance Receivership

The insurance receivership laws in each state have a primary goal of making sure a failed insurer's policyholder obligations are honored to the limits fixed by state law. The guaranty funds work with receivers - who report to state insurance commissioners - to ensure this happens quickly and efficiently.

While insurance regulators monitor the solvency of the insurance companies operating in their states, financial protection for consumers in the event of an insurer failure is generally provided by the guaranty fund of the state where the consumer resides or, in some cases, where the injured claimant resides.

Each guaranty fund responds to an insolvency by paying claims of the residents of that fund's state, regardless of where the failed company may have been domiciled, regulated, or placed in receivership.



How the Property and Casualty Insurance Guaranty System Works

Generally speaking, every state and the District of Columbia has a property and casualty fund created by state law that is overseen by the state's insurance regulator, and is typically operated as a non-profit association.¹

- Each property and casualty insurance company licensed to do business in a state and that writes business covered by the guaranty fund is required by state statute to be a member of the guaranty fund.
- Most insurance guaranty funds are special, non-governmental, not-for-profit entities established by specific state legislation. However, in four states (Arizona, Arkansas, New York and Pennsylvania), at least some elements of the guaranty mechanism are operated as part of state government. Typically, a guaranty fund is governed by a board of directors, drawn mostly from the fund's member insurance companies. Some guaranty funds also have public members when mandated by statute.
- A state guaranty fund manager delivers the policyholder protections required by statute, working in coordination with the receiver of the failed insurer.
- Most guaranty funds are subject to the supervisory oversight of their state insurance commissioner and do not have a role (even in their own states) in monitoring or policing the solvency of insurers.

How the Guaranty Fund System Protects Policyholders

The nationwide property and casualty insurance guaranty system honors the contractual commitments made by failed insurers to their policyholders by essentially stepping into the role of the insolvent company to pay covered claims consistent with a state's insurance code.

- By law, policyholders are at the "head of the line" of an estate's creditors. Covered policyholders are paid promptly by means of the guaranty fund mechanism.
- Guaranty funds are "triggered" once a state court finds that an insurance company is insolvent and orders it into liquidation. Once that occurs, the receiver of the failed company physically transfers the claim files to the state's guaranty fund.
- The safety net does not provide liquidity support to failed (or failing) insurers, nor does it protect their general creditors.

¹ Several States have separate guaranty mechanisms to provide protection with respect to certain specific types of benefits or programs, such as Workers' Compensation Insurance

When an insurer fails, two overriding policyholder concerns are addressed by the guaranty funds: the continuation of the insurance coverage that the policyholder has lost as a result of the insurer's failure; and payment of valid outstanding claims.²

- If policyholders have no claim pending with the failed carrier, they will not be affected by the guaranty fund system and need only purchase a new insurance policy in the competitive marketplace. In most states the guaranty funds cover claims for unearned premium, which assists the policyholder in acquiring replacement coverage.
- Payment of claims is the core responsibility of the guaranty system and involves much more than simply writing claim checks to policyholders. Guaranty fund representatives adjust the pending claims, just as claims adjusters in a solvent company would do. The adjuster must also determine the application of all guaranty fund-specific statutory provisions. This requires insurance claims specialists, who are qualified to analyze contract obligations defined by the laws of their state, to analyze bodily injury claims and assess liability, as well as the litigation risk associated with the claims.

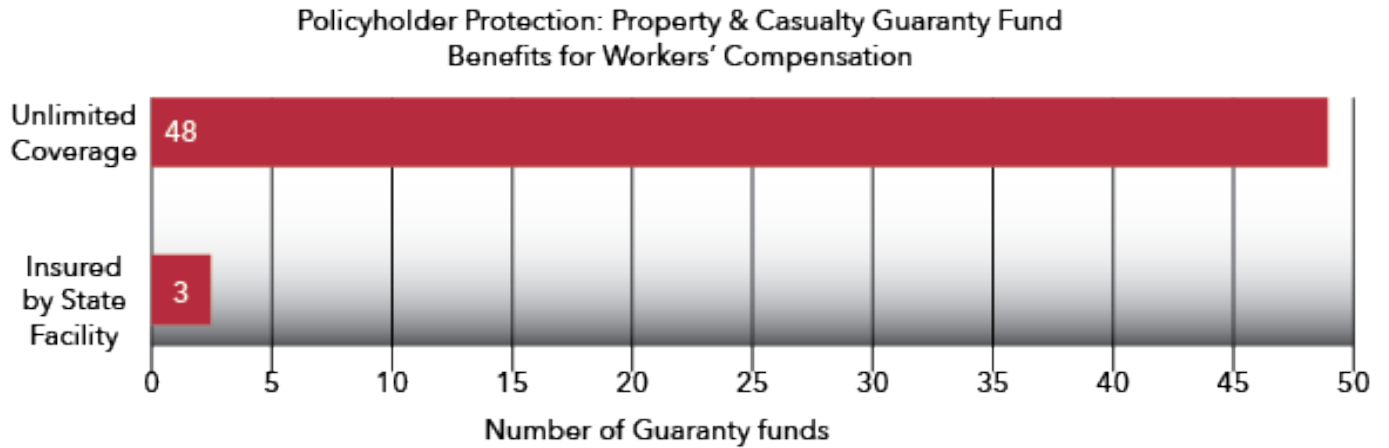
Each state's laws establish the coverage for the residents of its state. Nearly all states have guaranty fund laws adapted to local conditions by each state legislature from the model property and casualty guaranty fund statutes promulgated by the National Association of Insurance Commissioners (NAIC).

- Guaranty funds pay covered claims within the limits set by individual state laws and the insurance contract. Typically, the guaranty fund claim limit for personal injury and property damages is \$300,000 on covered claims, with some states covering as much as \$500,000 to \$1,000,000. Michigan has a guaranty fund covered claim limit of approximately \$5 million.
- When a claim is not covered in full by guaranty funds because of claim limits or other coverage limitations, policyholders can seek payment from the remaining assets of the estate.
- Almost all guaranty funds pay 100 percent of statutorily defined Workers' Compensation benefits.

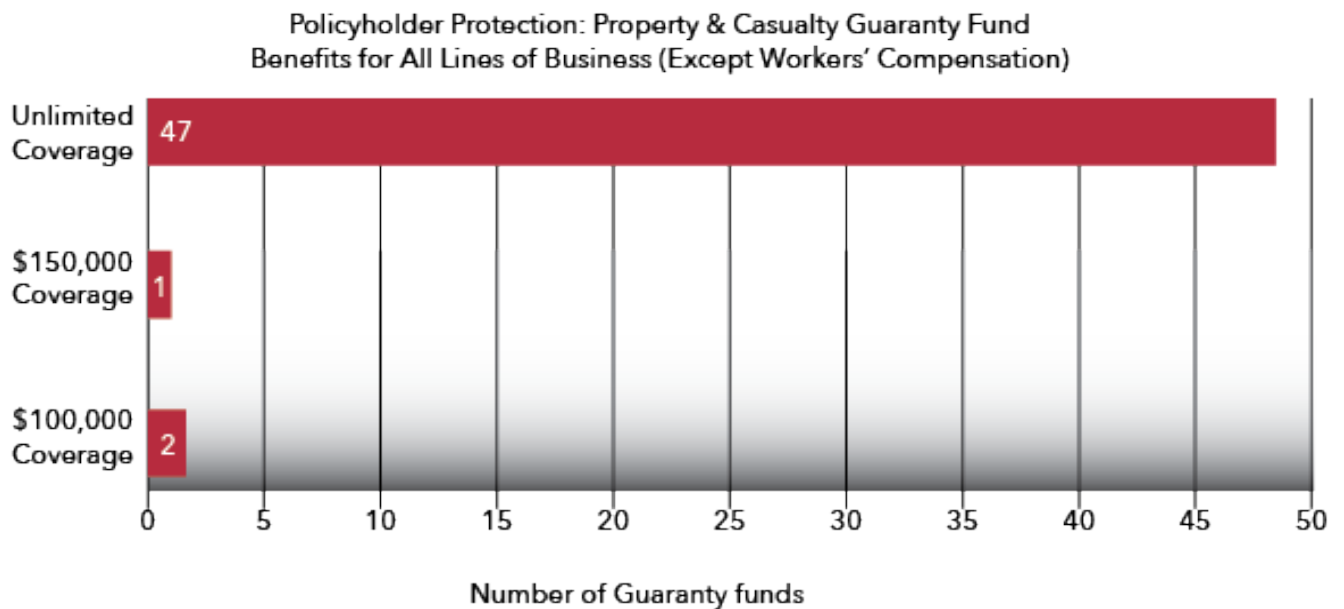
²Under insurance liquidation laws, virtually all property and casualty insurance contracts are canceled within thirty days of the date of liquidation, leaving the guaranty funds responsible for the adjudication and payment of claims that had accrued prior to liquidation and thirty days thereafter. Policyholders are responsible for obtaining new coverage.

The scope of guaranty fund policyholder protection for all lines of business is illustrated in the charts below.

This chart shows the level of guaranty fund policyholder protection for Workers' Compensation:



This chart shows the level of guaranty fund policyholder protection for All Lines of Business (Except Workers' Compensation):



How the Guaranty Fund System Is Funded

Guaranty funds do not have the same immediate funding requirements as banks because of the long-term nature of many insurance obligations. This is a significant difference between insurance and banks. Banks hold a customer's money with the expectation that it is available upon demand. State laws require guaranty funds to pay claims promptly; however, many claims become due, and consequently are paid, over a period of several years. By design, guaranty funds draw from several sources of funding to pay claims:

- The assets remaining in the insurance company, including those from ongoing reinsurance collections, which can be made available to the guaranty funds on an expedited basis. These assets are usually substantial and provide the primary source of funding guaranty fund payments to consumers in most insolvencies.
- Statutory deposits that may have been collected in some states to secure the insurance company's claim payment obligations.
- Assessments collected from member insurance companies.

This funding mechanism was designed to use as much of the failed company's remaining cash as possible. Estate assets can be sufficient to cover about 60 percent of policy-level claims in property and casualty insolvencies.

Guaranty funds levy assessments on solvent insurance carriers after the available estate assets have been exhausted. In that case, the state guaranty fund assesses the healthy insurers doing business in that state, up to annual statutory limits – typically two percent of net direct written premium in the year prior to the assessment. The amount of the assessment is determined by the amount of money needed by the guaranty fund to supplement the initial sources of funding for claims paying.

During the heaviest period of insolvency activity (2000–2005), the guaranty fund system paid out just \$10 billion against assessment capacity of about \$33 billion. Of that \$10 billion paid, \$5 billion came from the insolvent companies' assets and statutory deposits.

Today, the overall assessment capacity of the property and casualty guaranty fund system is about \$10.8 billion; this is renewable every year. Reliance on assessments to pay claims has not exceeded approximately 20 percent of capacity in a single year. When assessment capacity is added to estate assets (the primary funding source for guaranty fund payments) and statutory deposits, and considering the often long-term nature of the actual insurance obligations, the guaranty system has more than ample funding available to handle multiple large insolvencies.



A State court finds an insurance company insolvent and orders it liquidated



Policyholder claims files are transferred to the guaranty funds for servicing.



Covered claims are paid from a pool of money drawn from three sources made available at the time of insolvency:

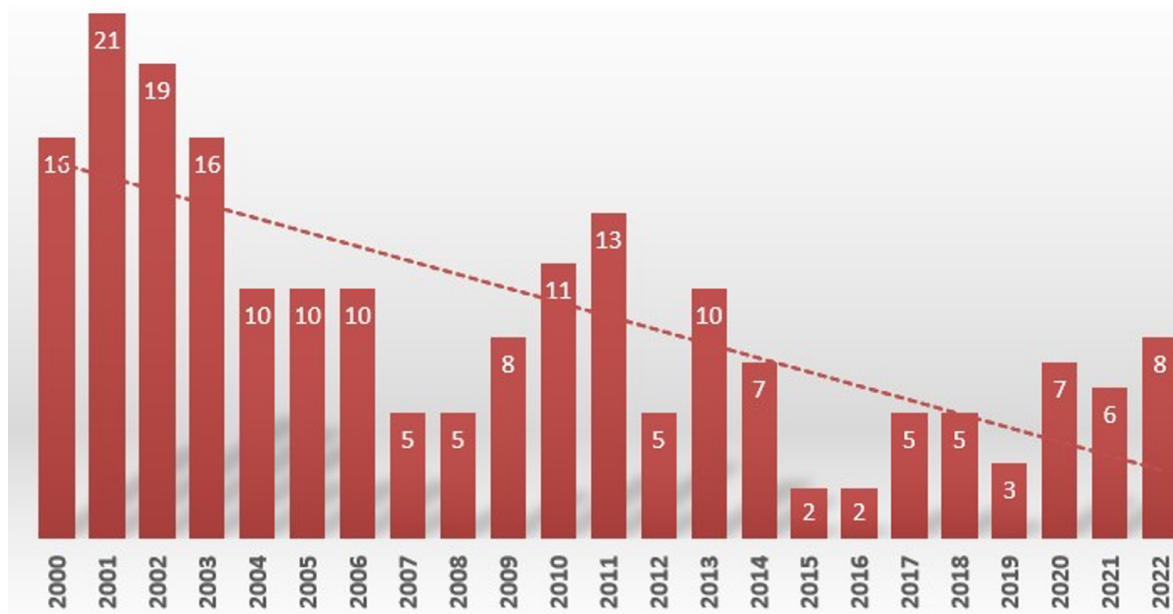
- a) the insolvent insurance company's remaining assets;
- b) cash already on deposit with the state regulators; and
- c) assessments on insurers licensed to write business in a state

History of Dependable Consumer Protection

Since the early 1970s, the guaranty system has provided protection to policyholders in more than 600 cases of insurer insolvencies, paying more than \$35 billion in related claims and expenses.

The total number of property and casualty insolvencies by year for 2000-2022 is shown here:

**Property & Casualty Insurance Guaranty Fund System
Number of Insolvencies(2000 –2022)**



Source: NCIGF. Updated thru 12-15-22.

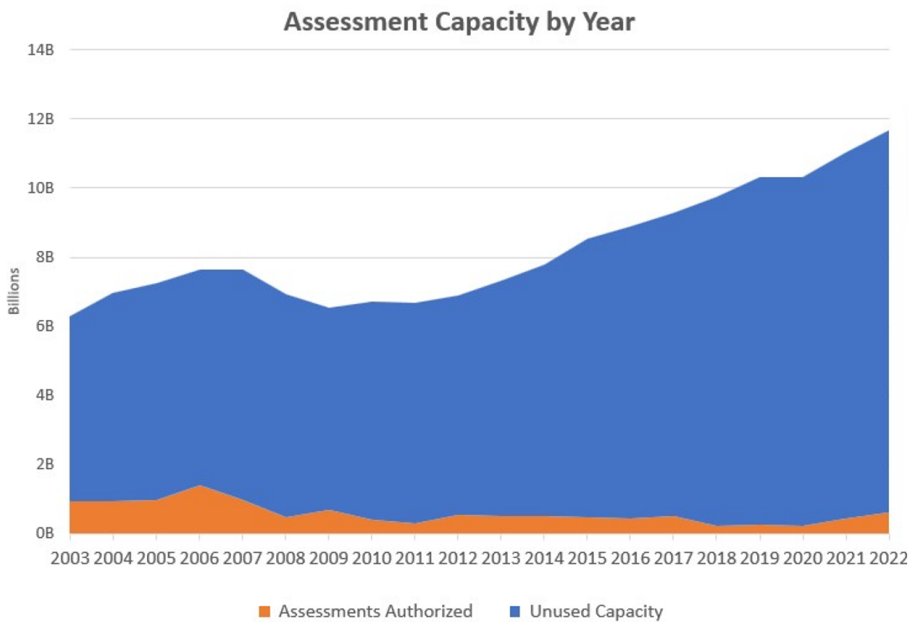
Note: NCIGF lists generally exclude insolvent insurers not impacted by P&C Guaranty Fund(s) such as RRGs; some surety, title, and warranty insurers; and affiliated insurers in Reliance Ins. Co, Fremont, Highlands, etc. (multiple companies in groups); AM Best includes all liquidations AM Best listings includes all insolvencies within their impairment listings.

Guaranty Fund Assessments

While guaranty fund assessments comprise only a portion of the funding to pay claims, it is interesting to note the recent history of assessments.

**Proper Property & Casualty Insurance Guaranty Fund System
Assessments Authorized averaged 7% of total assessment capacity available
20-year period (2003-2022)**

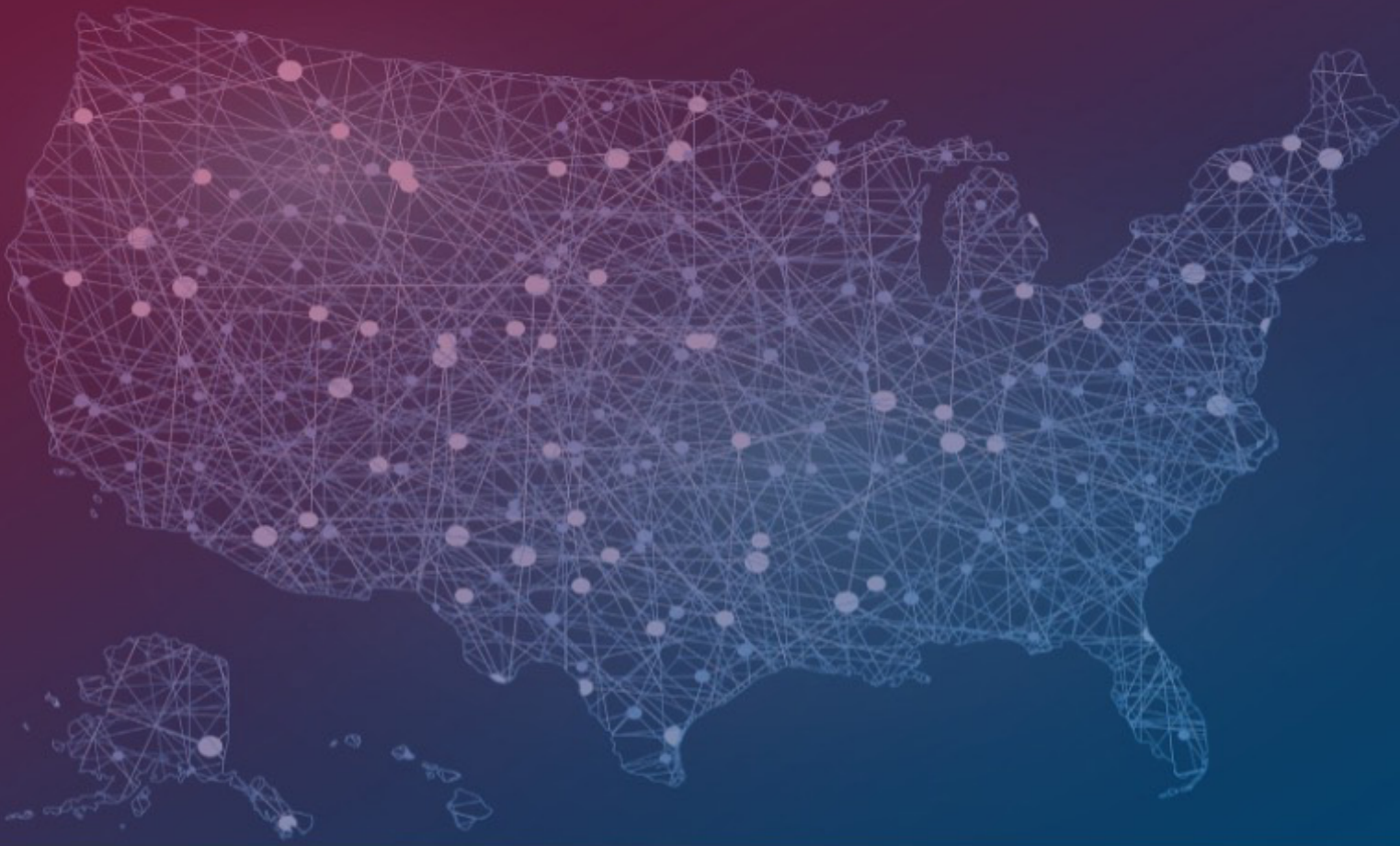
Assessment Capacity Available: **164 Billion**
Less Assessments Authorized: **12 Billion**
Assessment Capacity Unused: **152 Billion**



The State-Based Guaranty System and the NCIGF

For 50 years, the National Conference of Insurance Guaranty Funds (NCIGF) has supported the insurance promise by bringing continuity, collaboration and service to the insurance regulatory system. It has done this by delivering:

- Continuity in its coordination and support of property and casualty guaranty funds - through estate administration and data management, and communicating the strength of the property and casualty guaranty fund system and the viability of the insurance promise.
- Collaboration with the regulatory receivership communities to ensure efficient operation of the insurance regulatory system.
- Service to the policyholders who, when insurance companies fail, rely on the property and casualty system to protect them from financial loss.




The Operational Efficiencies of a National System

The insurance guaranty system delivers the operational efficiencies of a national system. It also effectively addresses the regional concerns of insurance consumers experiencing financial and other stresses associated with the failure of their insurance company.

- Individual guaranty fund staffs respond quickly to: explain coverage benefits and the claim submission and payment process, furnish status reports, and resolve specific inquiries. In addition, the NCIGF's members understand their states' tort law and court systems and how to adjudicate claims promptly and efficiently.
- Individual guaranty fund members of the NCIGF are sensitive to local circumstances and respond quickly to address the concerns of resident policyholders when an insolvency occurs. This is especially valuable when the volume of calls and letters from concerned policyholders is high in the aftermath of an insolvency. The guaranty funds give policyholders a place to turn.

- The National Conference of Insurance Guaranty Funds (NCIGF) is a 501(c)(6) not-for-profit organization incorporated in Illinois and based in Indianapolis, Indiana, whose members include independent property and casualty insurance guaranty funds in every state and the District of Columbia.
- The NCIGF does not pay claims; instead it coordinates the multi-state claims-paying activities of its member guaranty funds, monitors litigation that may affect guaranty funds, coordinates with the property and casualty insurance trade associations on state legislative matters, conducts education and training seminars for guaranty funds, provides financial information concerning the guaranty system, functions as a clearinghouse of relevant information, and provides a national forum for discussion. It also acts as a liaison between the National Association of Insurance Commissioners (NAIC) and insurance receivers.
- The NCIGF has established effective and credible working relationships with both insurance regulators and industry members. The NCIGF and its Guaranty Support Inc. (GSI) subsidiary employ a complement of experienced, full-time staff professionals who are adept in handling the technical and practical complexities of insolvencies' data management issues.
- The NCIGF serves as an informational resource for federal and state policymakers, the media and others.
- Resources and coordination provided by the NCIGF help minimize costs by facilitating a national response plan for protecting policyholders in multi-state insolvencies. This coordination of effort also reduces the time it takes to respond to a multi-state insolvency and to ensure policyholders receive their statutorily defined benefits.
- The NCIGF also provides coordination in digital data management and security, accounting standards, statutory and regulatory reforms, standardizing liquidation procedures, and general advocacy for the post-funded, state-based system.

The guaranty fund system economically delivers on its policyholder protection mission. Nationwide, annual guaranty fund general operating expenses are about \$85 million, which underscores the fact the guaranty funds provide maximum consumer protection at a lower cost than that of the insurance industry. Research by the NCIGF shows that the Loss Adjustment Expenses and General Operating Expenses of guaranty funds are on par with those of the insurance industry.



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