

# Kentucky FAIR Plan Reinsurance Association

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October 8, 2020

## Notice of Governing Committee Meeting

Pursuant to Article V.3, Articles of Association, Kentucky FAIR Plan Reinsurance Association, a Governing Committee Meeting will be held at 10:30 A.M. on Thursday October 22, 2020 via teleconference.

Agenda:

1. Roll Call
2. Anti-Trust Preamble Reminder
3. Approval of Minutes
4. Committee Reports
5. Executive Director's Report
6. 2021 Budget
7. Other Business
8. Adjournment

If you are unable to attend this meeting, please consider providing a proxy.

Sincerely,



Mark Hillis  
Executive Director

Cc: Director Shawn Boggs, Kentucky Department of Insurance  
Governing Committee Members

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
GOVERNING COMMITTEE**

Governing Committee Member	Affiliation
<p><b>Kristen K.W. Mellinger (Chair)</b>  Kentucky Farm Bureau Mutual Insurance Co.  9201 Bunsen Parkway  Louisville, KY 40220  (502) 495-5000 x 7499  <a href="mailto:Kristen.Mellinger@kyfb.com">Kristen.Mellinger@kyfb.com</a></p>	Domiciled (a)
<p><b>Rudy Schlich (Vice Chair)</b>  Old Kentucky Insurance  915 Lily Creek Road  Louisville, KY 40243  (502) 451-8800  <a href="mailto:Rudy.Schlich@oldkyins.com">Rudy.Schlich@oldkyins.com</a></p>	Agent (d)
<p><b>Lisa Pierce</b>  Allstate Insurance Company  555 Marriott Drive, Suite 700  Nashville, TN 37214  (615) 902-7053  <a href="mailto:Lisa.pierce@allstate.com">Lisa.pierce@allstate.com</a></p>	APCIA –Affiliated (c)
<p><b>Steve Simkins</b>  State Farm Insurance Co.  285 Peachtree Center Avenue Suite 1200  Atlanta, GA 30303  (228) 217-3798  <a href="mailto:steve.simkins.le1o@statefarm.com">steve.simkins.le1o@statefarm.com</a></p>	Non Affiliated (b)
<p><b>Roman Henderson</b>  Travelers Insurance  303 N Hurstbourne Parkway, Suite 150  Louisville, KY 40222  W: 502-595-9316  <a href="mailto:rbhender@travelers.com">rbhender@travelers.com</a></p>	APCIA –Affiliated (c)
<p><b>Anna Etherington</b>  Liberty Mutual Group Insurance  175 Berkeley Street  Boston, MA 02116  857-224-2006  <a href="mailto:Anna.Etherington@LibertyMutual.com">Anna.Etherington@LibertyMutual.com</a></p>	NAMIC (c)
<p><b>John Miner</b>  Kentucky National Insurance  2416 Sir Barton Way  Lexington, KY 40509  (859) 519-1054  <a href="mailto:jominer@kynat.com">jominer@kynat.com</a></p>	Domiciled (a)

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
GOVERNING COMMITTEE**

**Kentucky Department of Insurance Representative and Kentucky FAIR Plan Staff**

<p><b>Shawn D. Boggs, APIR</b> Director Consumer Protection Division <b>Kentucky Department of Insurance</b> 500 Mero Street, 2 SE 11 Frankfort KY 40601 502 564 6034 Phone 502 564 6090 Fax <a href="mailto:shawn.boggs@ky.gov">shawn.boggs@ky.gov</a></p>	
<p><b>Stephen M. Hillis</b> Executive Director and Secretary Treasurer Kentucky FAIR Plan Reinsurance Association P.O. Box 437249 Louisville, KY 40243 (502) 425-9998 Ext 2110 <a href="mailto:shillis@kyfairplan.com">shillis@kyfairplan.com</a></p>	
<p><b>Melissa Chlon</b> Assistant Director and Plan Manager Kentucky FAIR Plan Reinsurance Association P.O. Box 437249 Louisville, KY 40243 (502) 425-9998 Ext 2125 <a href="mailto:mchlon@kyfairplan.com">mchlon@kyfairplan.com</a></p>	

## **Kentucky FAIR Plan Reinsurance Association**

### **Anti-trust Preamble**

We are here to discuss and act on matters relating to the business of the Kentucky FAIR Plan not to discuss or pursue the business interests of our individual companies. We should proceed with caution and alertness towards the requirements and prohibitions of federal and state anti-trust laws. We should not engage in discussions, either at this meeting or in private conversations, of our individual companies' plans or contemplated activities. We should concern ourselves only with the business of the Kentucky FAIR Plan.

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
GOVERNING COMMITTEE MEETING**

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The Governing Committee and Annual meetings of the Kentucky FAIR Plan were held at 10:30 AM on June 4, 2020 via teleconference.

Those present:

**Governing Committee:**

Kristen Mellinger	(Chair)	Kentucky Farm Bureau Ins. Co.
Rudy Schlich	(Vice Chair)	Old Kentucky Insurance
Lisa Pierce, J.D.		Allstate Insurance Company
Steve Simkims		State Farm Insurance Co.
Anna Etherington		Liberty Mutual Group Insurance
John Miner		Kentucky National Insurance

**Kentucky Department of Insurance:**

Shawn Boggs	Kentucky Department of Insurance
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**Other:**

Steve L. Holley, CFM	Investment Custodian, Merrill Lynch
Sarah Antle, CPA	Deming, Malone, Livesay & Ostroff

**Staff:**

Mark Hillis	Executive Director / Sec. Treasurer
Melissa Chlon	Assistant Director / Plan Manager
Erin Lux	Assistant Plans Manager

**1. Call to Order and Roll Call:**

Mr. Hillis thanked the Governing Committee and Director Boggs from the Kentucky Department of Insurance for being able to work and serve the insurance industry and for the ability to provide residual market support through the Plans for the Commonwealth of Kentucky.

Ms. Mellinger called the meeting to order and held roll call for each committee members and guests and noted that a quorum was present. Mr. Caudill appointed Ms. Mellinger as his proxy.

**2. Antitrust Preamble:**

Ms. Mellinger reminded everyone that we are bound by the Anti-Trust Preamble that was provided in the meeting documents.

**3. Approval of Minutes:**

The Committee reviewed minutes of the October 24, 2019 Governing Committee Meeting, April 13, 2020 Product and Forms Committee Meeting, April 13, 2020 Audit Committee and April 13, 2020 Finance and Investment Committee Meeting which were distributed and included with the meeting documents. Ms. Pierce moved, and Mr. Simkims seconded to approve the minutes of the committees. The motion passed unanimously.

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
GOVERNING COMMITTEE MEETING**

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**4. Election of Members of Governing Committee:**

Mr. Hillis indicated that Governing Committee is seated annually for the coming year and new members are elected to the Committee. He noted that the Department of Insurance had approved Mr. John Miner, President of Kentucky National Insurance to replace Mr. Reesor of Lawyers Mutual Insurance. A motion was made by Mr. Schlich to approve Mr. Miner and seat the Committee for the coming year. The motion was seconded by Mr. Simkims and carried unanimously.

**5. Election of Officers:**

Ms. Pierce nominated Ms. Mellinger as Chair, Mr. Schlich as Vice-Chair and Mr. Hillis as Secretary-Treasurer. Ms. Pierce asked if there were other nominations from the floor, and hearing none closed the nominations. Mr. Simkims moved to accept the nominations, Mr. Miner seconded, and the motion carried unanimously.

Ms. Pierce noted that Mr. Reesor, the former Vice Chair, retired from Lawyers Mutual Insurance in January 2020 and the Plans wish him well in his retirement and thank him for his many years of service to the Plan.

**6. Auditors Report and Financial Statement:**

The 2019 Independent Auditor's Report and Financial Statement, prepared by Deming, Malone, Livesay & Ostroff, CPA, was distributed to Governing Committee Members within the meeting materials. Ms. Antle discussed the report and indicated that adequate controls were in place and the audit firm was reporting a clean audit with no irregularities noted.

Ms. Antle reminded the Committee that in 2019 the Kentucky FAIR Plan assumed allocation responsibility from the Kentucky Automobile Insurance Plan. She also noted that the Plan disbursed funds back to the member companies as noted in the meeting documentation. She asked for questions and there were none.

**7. Review of Investment Portfolio:**

Mr. Holley presented summary reports and discussed the Plan's investment portfolio held by Merrill Lynch as Custodian. The reports included an analysis of portfolio diversification. The Plan has approximately \$15.2 million invested with \$1 million in cash, \$3.4 million in equities and \$10.8 million in fixed income. The 12-month rate of return was 3.56% but was down 1.5% in February 2020. The 10-year performance annualized was at 3.9%. The investment portfolio has a municipal bond ladder from 2020 to 2030 returning \$423k annually in interest income. The Plans recently restarted the equity purchase program at \$35k per month.

Mr. Hillis thanked Mr. Holley for his knowledge of the Plans investments and his willingness to educate the Committee.

Mr. Hillis recognized Maureen Williams from Kentucky Farm Bureau for her many years of support to the FAIR Plan through her investment review and work on the Investment Committee. Ms. Mellinger also recognized Ms. Williams noting that Farm Bureau drove by her house focused on social distancing to congratulate her on her retirement.

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**8. Executive Director's Report:**

Ms. Chlon presented a status report:

Ms. Chlon discussed 2019 results indicating:

- Written premium had declined by 14.08% over 2018.
- New business applications were down by 3.6% over the prior year.
- In-force policies declined by 9.23%.
- Reported claims remained flat from 2018 to 2019.
- The Loss ratio increased 6.7%, while the LAE ratio increased to 17.8%
- The Combined ratio was 92.65% compared to 80.21% in 2018.
- Members Equity decreased from \$19,534,047 to \$15,834,581. Ms. Chlon reminded the committee that the Plan successfully distributed \$4.9 million back to the industry in December 2019.

**Budget and Operating Expenses:**

Ms. Chlon presented the Operating Expense Ratio for 2019 and the prior 3 years in a PowerPoint slide. 2019 reflected an increase over the prior year due a significant decline in Written Premium. The 2019 expense ratio was 28.45% compared to 25.61% for 2018.

Ms. Chlon also pointed out that in 2019, the Plan came in 10.13% under budget. She explained that the budget is approved before health insurance rates are received from the vendor and forecasted premium will be used to calculate the 2021 health insurance budget. She also noted that the Plans offer a simple Defined Contribution Plan. The Plans continue to look for ways to become more efficient and reduce expenses. The largest factor in the 2019 budget results were driven by wages. It was noted that the Plan operates with staffing which has been cross trained and can be allocated as needed across the various Plans.

**First Quarter 2020 results:**

Results were summarized, and Ms. Lux reported that written premium decreased by 16.4%, new applications have declined 16% from 2019, and policies in force declined by 10.65% over Q1 2019. The new applications and renewal business policy still reflect a majority being written on the DP-1 and DP-2 forms. The distribution of new claims reported during the first quarter of 2020 was also discussed.

Ms. Lux noted that the Plan has not seen an impact of COVID-19 yet, but the Plan has a policy, claims and admin system which was built to allow for efficiencies in operation and adequate staffing in place should there be an influx in applications.

**Reinsurance:**

Ms. Lux advised that the Plan's reinsurance treaty limits are \$7,000,000 xs \$3,000,000 and the term runs from 10/1 to 9/31. Renewal data will be provided at the end of June and renewal quotes will be secured on the expiring portion. When quotes are available a meeting of the Reinsurance and Equity Committee will be scheduled to consider the

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quotes and to discuss the equity position of the Plan in accordance with the Governing Committee Policy, Members Equity and Distribution to Members.

**9. Other Business:**

**Members Equity:**

Mr. Hillis noted that the FAIR Plan disbursed \$4.9 million back to the industry in December 2019. As of March 31<sup>st</sup>, the outstanding balance is \$578k and follow up letters were sent in April 2020 to remind carriers of the outstanding funds.

**Building Sale and Re-Location Plan:**

Mr. Hillis noted that the sale of the building located at 10605 Shelbyville Road closed on April 22, 2020 for \$1.75 million. The Plans are leasing back the office space until September.

Working with the Finance Committee, Mr. Hillis has identified a building in Middletown less than 2 miles from the prior office that seems to be a good fit. He went through the benefits and opportunity areas of the prospective new office space as well as the financial benefits of purchasing versus leasing. Mr. Hillis noted that they have worked with both their CPA, as well as their auditing firm, DLMO, to review both 5 year and 10 year financial impacts as part of the decision making process.

Ms. Mellinger noted that the Plans had reviewed various different buildings, and after reviewing the pros and cons that purchasing the building was the most feasible.

Mr. Hillis asked the committee if there were any questions, concerns or additional comments. Hearing none, a motion was made by Mr. Simkims to approve allowing the Facilities Committee to act in negotiating the purchase price of the building up to \$748k. The motion was seconded by Ms. Pierce and carried unanimously.

**COVID-19:**

Mr. Hillis noted that the Plans closed the physical office on March 13<sup>th</sup>. At that time, all team members began working from home. Each employee already had a laptop, VPN access, and VOIP phone allowing the transition to working remotely occur seamlessly. He noted that the Plans had readied the building with a deep cleaning, hung signs, provided masks and hand sanitizer for employees to begin returning to the office in staggered shifts starting June 8<sup>th</sup>. Further, he noted that the Plans have kept the board Chair and Vice Chair, as well as Commissioner Clark and Director Boggs of the DOI fully informed during this time.

Policyholders that were directly impacted by COVID-19 and inquired about payment flexibility were addressed on a case by case basis. These requests were typically handled by adjusting payment plans.



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The insurance impact of COVID-19 and rioting is unknown at this time, but the Plans have a system and staff ready if there is an influx in applications.

Mr. Hillis thanked Ms. Mellinger, Director Boggs and Commissioner Clark for their prompt responses and support.

### **FAIR Plan Cost Sharing Alliance:**

Mr. Hillis provided a brief background of the partnership that has existed between the Illinois FAIR Plan and the Kentucky FAIR Plan.

In the fall of 2020, Joe Hathaway, the General Manager of the Illinois FAIR Plan reached out to Mr. Hillis to start discussing ways in which the Plans can share resources. The Illinois Plan, its Governing Committee, and their DOI have asked Kentucky to consider taking over the management of their claim's operation in 2021, utilizing Kentucky staff working under contracts with independent adjusting firms. This would allow the Illinois Plan to not re-staff a retirement position. Wisconsin, Indiana, and Minnesota FAIR Plans have shown interest as well. Indiana has made requests for back up assistance in underwriting to cover staff vacations and absences.

Mr. Hillis shared the FAIR Plan Alliance Mission Statement and letter from the Illinois FAIR Plan Executive Committee. He also noted that Tom Assad with AIPSO and Ron Cassesso, President of PIPSO had been part of these initial conversations.

A general conversation took place regarding the annual, non-automatic contract renewal and the ability to customize and/or terminate the agreement at any time. Specifically, Mr. Simkims and Mr. Miner asked about 30 day exit clauses, as well as the ability to exit should Kentucky not have adequate staffing or resources in place. After further discussion, it was decided that Mr. Hillis would send the drafted contract and non-disclosure agreement for the Committee to review and submit a mail vote later in June.

### **Team Engagement Opportunities**

Mr. Hillis discussed recent team engagement activities and that employees found the experiences rewarding and enjoyed the opportunity to serve in the areas in which they live and work. Noting that the Plans had been involved in gathering employees' gifts during the holiday season, volunteering labor at a local veteran's establishment, as well as providing food to front line workers during COVID-19. He advised that the Plans have worked with a locally owned restaurant in downtown Louisville to provide over 1,200 meals to frontline workers and first responders during the onset of COVID-19. The response was overwhelming. He discussed the Plans intentions to continue these types of team engagement opportunities and to continue budgeting annually to cover the costs of these events. These engagements also allow for the FAIR Plan to contribute to causes that impact the Commonwealth of Kentucky. Mr. Hillis welcomed suggestions for future activities from the Governing Committee.

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
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**PIPSO Report:**

Ms. Mellinger advised that in accordance with the Articles of Association the abbreviated quarterly PIPSO report is provided to the Governing Committee and Department of Insurance.

**Committee Assignments:**

Ms. Mellinger advised that updated committee assignments were included in the meeting materials. She asked for questions regarding the assignments and there were none.

**Kentucky Department of Insurance Comments:**

Ms. Mellinger thanked Director Boggs for representing the Department of Insurance and invited any updates or comments.

Director Boggs expressed his appreciation to the Plan and the industry indicating he is looking forward to meeting in person. He also noted that the Department appreciates the communication from the Plans. He further noted that the DOI is here for the Plans and the industry. He indicated that while the Department doesn't have a formal date to return to the office, staff is working both remotely and alternating in office days to continue to provide service to the consumers and the industry.

Ms. Mellinger echoed Director Boggs thanking the Plans for its leadership. Thanking the team for its leadership over the past few months to include all the work that went into the disbursement, but also for the quick reaction to the COVID-19 pandemic providing solutions to the consumers and industry, but also for the safety of our employees.

**Next meeting:**

Ms. Mellinger noted that the fall meeting may be virtual depending on the pandemic and the office accommodations of the Plans. The next meeting date is set for October 22, 2020.

**10. Adjournment:**

There being no other business, Mr. Schlich moved, Ms. Pierce seconded, and the committee agreed to adjourn the meeting.

Respectfully Submitted,



Melissa Chlon  
Assistant Director / Plan Manager

**Kentucky FAIR Plan**

**FAIR Plan Alliance**  
**Mail Vote**

**INTRODUCTION**

During the June 4, 2020 FAIR Plan Governing Committee meeting, we reviewed requests from other states for general assistance and partnerships. It was noted that the state of Indiana has requested assistance in providing backup for when their underwriter is absent. In addition, the state of Illinois has requested our review and general agreement with the FAIR Plan Alliance Mission statement and their Board has requested that we consider providing claims support when their Claims Manager retires at some point in 2021.

**BACKGROUND**

Unlike Automobile Insurance Plans which operate under shared services in most states, FAIR Plans tend to operate within the confines of their own state boundaries. However, as FAIR Plans have continued to decline in size, challenges exist with staffing for turnover, vacations, etc. Having the ability to utilize similar systems which exist in Wisconsin, Minnesota, Illinois, Indiana, and Kentucky, will allow for the industry and consumers to see greater operational efficiencies and service levels as FAIR Plans continue to decline in size.

During the June 4, 2020 Kentucky FAIR Plan Governing Committee meeting, I indicated the unique opportunities that exist in Kentucky within our personnel. Questions asked pertained to proposed agreements, and the ability to continue to make sure that Kentucky operations remain strong and that residents of the Commonwealth are supported.

On June 4<sup>th</sup>, each Governing Committee member was sent an email which included copies of proposed NDA language, as well as contract language. These outlined:

- (1) Our ability to accept or decline work;
  - (2) Our ability to exit the contract with 30 days notice;
  - (3) The documentation that the home state retains ownership of the work and management.
- Essentially, we are their processor.

As of this date, I have received no additional questions or comments pertaining to the FAIR Plan proposed Alliance, or the documents.

**RECOMMENDATION**

I recommend that we move forward with the Alliance. I believe that this will be beneficial to the industry. I also believe that our Kentucky operations are in a position where we can continue to assist other states with the same policy and claims administrative system.

**Please indicate your preference below:**

- I Concur  
 I Do Not Concur  
 I Abstain  
 Hold for discussion at next meeting

Signed: Shirley Mellinger Date: 6/16/20

Company: Kentucky Farm Bureau

Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)

## **Kentucky FAIR Plan**

### **FAIR Plan Alliance** **Mail Vote**

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- I Concur  
 I Do Not Concur  
 I Abstain  
 Hold for discussion at next meeting

Signed: Rudy Schlich Date: June 10, 2020

Company: Old Kentucky Insurance

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**

## **Kentucky FAIR Plan**

### **FAIR Plan Alliance** **Mail Vote**

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Signed: John Miner (e) Date: 6/10/20

Company: Kentucky National Insurance

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**

## **Kentucky FAIR Plan**

### **FAIR Plan Alliance** **Mail Vote**

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 Hold for discussion at next meeting

Signed:     Lisa K. Pierce     Date:   6/10/20  

Company:   Allstate Insurance  

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**

**Kentucky FAIR Plan**

**FAIR Plan Alliance**  
**Mail Vote**

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Signed: Lick Caldwell Date: 6/10/2020

Company: Travelers

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**

## Kentucky FAIR Plan

### FAIR Plan Alliance Mail Vote

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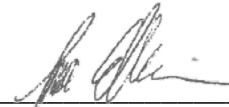
As of this date, I have received no additional questions or comments pertaining to the FAIR Plan proposed Alliance, or the documents.

#### **RECOMMENDATION**

I recommend that we move forward with the Alliance. I believe that this will be beneficial to the industry. I also believe that our Kentucky operations are in a position where we can continue to assist other states with the same policy and claims administrative system.

#### **Please indicate your preference below:**

- I Concur  
 I Do Not Concur  
 I Abstain  
 Hold for discussion at next meeting

Signed:  Anna Etherington Date: 06/10/2020

Company: Liberty Mutual

**Please return by email to [shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)**



**From:** [Steve Simkins](#)  
**To:** [Stephen M. Hillis](#)  
**Subject:** [EX] RE: VOTE - Response Requested: Kentucky FAIR Plan - Cost Sharing Alliance  
**Date:** Wednesday, June 17, 2020 10:20:15 AM

---

**\*\*\* CAUTION:** This email originated from outside of the KYINS Plans. **\*\*\***

---

Sorry. I approve.

Sent with BlackBerry Work ([www.blackberry.com](http://www.blackberry.com))

---

**From:** "Stephen M. Hillis" <[SHillis@kyfairplan.com](mailto:SHillis@kyfairplan.com)>  
**Sent:** Jun 16, 2020 9:31 AM  
**To:** Steve Simkins <[steve.simkins.le1o@statefarm.com](mailto:steve.simkins.le1o@statefarm.com)>  
**Subject:** [EXTERNAL] Fwd: VOTE - Response Requested: Kentucky FAIR Plan - Cost Sharing Alliance

Steve,

Wanted to make sure this had made it to you.

Mark Hillis  
Executive Director  
Kentucky FAIR Plan Reinsurance Association  
Kentucky Auto Insurance Plan  
Kentucky Assigned Claims Plan  
Kentucky Insurance Arbitration Association  
P.O. Box 437249  
Louisville, KY 40243  
Phone: (888) 222-7702 extension 2110  
[shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)  
[www.kyinsplans.org](http://www.kyinsplans.org)

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**From:** Stephen M. Hillis <[SHillis@kyfairplan.com](mailto:SHillis@kyfairplan.com)>  
**Sent:** Wednesday, June 10, 2020 6:53 AM  
**To:** Lisa Pierce ([lisa.pierce@allstate.com](mailto:lisa.pierce@allstate.com)); Mellinger, Kristen; Rudy Schlich; [steve.simkins.le1o@statefarm.com](mailto:steve.simkins.le1o@statefarm.com); John Miner; Caudill,Rick; Etherington, Anna  
**Cc:** Melissa O. Chlon; Erin C. Lux; Stephen "Mark" Hillis ([SHillis@kyfairplan.com](mailto:SHillis@kyfairplan.com))  
**Subject:** VOTE - Response Requested: Kentucky FAIR Plan - Cost Sharing Alliance

Good Wednesday morning. I hope all of you are doing well.

Following our Governing Committee meeting last week, and after some discussion pertaining to a proposed Cost Sharing Alliance, I send out the email below, along with supporting attachments to see if there were any questions or concerns.

As of today, I have not had any questions submitted, or concerns voiced. As such, I have attached a Mail Vote and would request your review and approval to continue to move forward.

I know that one question during the meeting had to do with making sure our staffing was adequate, and that our Kentucky operations didn't over extend itself. As such, I wanted to remind everybody, that part of what you have hired me to do, is to effectively manage our Kentucky operations. A big part of that is allocating staffing amongst the 4 Plans that I oversee. And having worked very hard over the past 4 years to build the right team, to engage and develop the right people, build systems, etc, I have absolutely no desire to compromise our staffing in any manner and would simply ask for your continued trust in working to make not just our FAIR Plan as efficient as possible, but also in encouraging other FAIR Plans to follow along with a continued focus on saving the industry and consumers money.

I would ask for your completion of the attached voting form, and your response by EOB on the 16<sup>th</sup> of June please.

**Mark Hillis**

**Executive Director**

*Kentucky FAIR Plan Reinsurance Association*

*Kentucky Auto Insurance Plan*

*Kentucky Assigned Claims Plan*

*Kentucky Insurance Arbitration Association*

**P.O. Box 437249**

**Louisville, KY 40243**

**Phone: (888) 222-7702 extension 2110**

[shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)

[www.kyfairplan.org](http://www.kyfairplan.org)

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---

**From:** Stephen M. Hillis <SHillis@kyfairplan.com>

**Sent:** Thursday, June 4, 2020 12:23 PM

**To:** Lisa Pierce (lisa.pierce@allstate.com) <lisa.pierce@allstate.com>; Mellinger, Kristen <Kristen.Mellinger@kyfb.com>; Rudy Schlich <rudy.schlich@oldkyins.com>; steve.simkins.le1o@statefarm.com; John Miner <jominer@kynat.com>; Caudill, Rick <RCAUDILL@travelers.com>; Etherington, Anna <Anna.Etherington@LibertyMutual.com>

**Cc:** Melissa O. Chlon <MChlon@kyfairplan.com>; Erin C. Lux <ELux@kyfairplan.com>; Stephen M. Hillis <SHillis@kyfairplan.com>

**Subject:** Kentucky FAIR Plan - Cost Sharing Alliance

**Importance:** High

I have attached, our work on the Cost Sharing Alliance NDA and contract (Indiana specific) as we had spoke to in our meetings.

You will see a few things here as we had noted in the meeting.

1. Our ability to accept or decline work;
2. Our ability to exit the contract with 30 days notice;
3. The documentation that (in this case) Indiana retains ownership of the work and management. Essentially, we are their processor.

I would ask that you please review, and reach out to me with any comments. I will calendar to follow up with a formal mail vote next week.

Thank you all for your continued partnership and support.

**Mark Hillis**

**Executive Director**

*Kentucky FAIR Plan Reinsurance Association*

*Kentucky Auto Insurance Plan*

*Kentucky Assigned Claims Plan*

*Kentucky Insurance Arbitration Association*

**P.O. Box 437249**

**Louisville, KY 40243**

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[shillis@kyfairplan.com](mailto:shillis@kyfairplan.com)

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# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## Underwriting Audit Meeting Minutes August 19 and August 26, 2020

**The 2020 Underwriting Audit was held virtually beginning on August 19, 2020 and ending on August 26, 2020.**

### **Attendance, August 19, 2020:**

Oliver Casey	CNA
Dwayne Taylor	State Farm Insurance
Lori Comella	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Manager
Russ Thornton	Kentucky FAIR Plan – Underwriting & Claims Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager

### **(1) Welcome and Introductions / Call to Order:**

Mr. Shubert called the meeting to order at 10:00 AM. Introductions were made, and attendees confirmed.

### **(2) Anti-Trust Preamble:**

Mr. Shubert read the Anti-Trust Preamble.

### **(3) Review of Resource Materials:**

The Articles of Association and policy quick reference guides were provided to the auditors.

### **(4) Finys Training Refresher:**

Following the introductions, all attendees were directed to the training PowerPoint, led by Mr. Shubert. This PowerPoint presentation provided a refresher on the *Finys* computer system that would be used during the audit. The training and overview of systems continued until approximately 10:30 AM.

### **(5) Overview of Checklist:**

As advised to the committee in prior communications, a list of policies was provided to the auditors electronically to select from, along with pre-formatted worksheets to track the results. General discussion took place that the focus should be on general underwriting trends, documentation, and overall quality as they review the policies.

### **(6) Adjournment:**

The meeting adjourned at approximately 10:45 AM with the understanding that the Audit Team would complete at least 10 reviews over the several days and provide their audit results, electronically to Erin Lux by noon Tuesday August 25, 2020.

## **Attendance, August 26, 2020:**

Oliver Casey	CNA
Dwayne Taylor	State Farm Insurance
Lori Comella	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Manager
Russ Thornton	Kentucky FAIR Plan – Underwriting & Claims Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager
Melissa Chlon	Kentucky FAIR Plan - Assistant Director

### **(1) Welcome and Introductions / Call to Order:**

Ms. Lux called the meeting to order at 10:00 AM. Introductions were made, and attendees confirmed.

### **(2) Anti-Trust Preamble:**

Ms. Lux reminded attendees that we are bound by the Anti-Trust Preamble presented to them.

### **(3) Auditor's Feedback and Trends:**

Ms. Lux confirmed that all three auditors' workbooks have been received and the results compiled. Ms. Lux shared the summary of results with the group.

- **Observation:** All auditors agreed that the files were documented well, handled timely, and generally in very good condition. It was a challenge for the auditors to find negative conditions. The files had adequate comments to support decisions made.
- **Observation:** The virtual format of the meeting and the timing of the week-long audit was agreeable to all auditors. The audit went smoothly and felt very efficient; each auditor agreed they could have completed more reviews. The audit sheet was streamlined and effective and led to a more focused and less time-consuming audit.
  - Ms. Lux advised that in 2021, we will ask them to review more files.
- **Observation:** In an effort to be even more efficient, it was recommended that online tools used during the valuation need not be saved / uploaded to the file as this is public information, available at any time.
- **Observation:** Discussion was held around the documentation supporting the need for a policy to be written in the FAIR Plan. The majority of files clearly indicated why the application was with the FAIR Plan.
  - Ms. Lux advised that as a result of our 2019 audit, we are adding language to the online application to further emphasize the need for producers and insureds to exhaust all efforts prior to applying with the FAIR Plan.

**(4) Assignment of Executive Summary Duties:** The committee designated that Lori Comella of Kentucky Farm Bureau, would complete the Executive Summary and forward to Ms. Lux by September 9, 2020.

**(5) Other Business:**

No topics of other business were presented for discussion.

**(6) Adjournment:**

The committee was reminded of their duty and authority as outlined in the Articles of Association, Article VI, Section 4(b). A date for the 2021 audit will be presented to the committee members by end of second quarter, 2021. The meeting was adjourned at approximately 10:30 AM.

**Respectfully Submitted,**

*Erin Lux*

**Erin Lux  
Assistant Plans Manager  
Kentucky FAIR Plan Reinsurance Association**

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

Claims Audit Committee Meeting  
September 2, 2020 and September 10,2020

**The 2020 Claims Audit was conducted virtually beginning on September 2, 2020 and ending September 10,2020.**

## **In Attendance for September 2, 2020 Audit Kick-Off**

Andy Lewis	State Farm Insurance
Keith Howard	Hanover Insurance
Dan Pendleton	Kentucky Farm Bureau Insurance Companies
Henry Goins	Kentucky Farm Bureau Insurance Companies
Don Wafzig	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Manager
Russ Thornton	Kentucky FAIR Plan – Claims & Underwriting Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager
Melissa Chlon	Kentucky FAIR Plan - Assistant Director

## **(1) Welcome and Introductions / Call to Order:**

Ms. Lux called the meeting to order promptly at 10:00 AM. Introductions were made, and attendees confirmed.

## **(2) Anti-Trust Preamble:**

Ms. Lux read the Anti-Trust Preamble.

## **(3) Review of Resource Materials:**

The policy quick reference guides were provided to the auditors virtually. A presentation was led by Mr. Thornton, including a refresher of the Finys system.

## **(4) Overview of Checklist:**

Mr. Thornton reviewed the days objectives which included a random audit pulled from a list of 267 closed claim files through August 1, 2020. The auditors confirmed they had each received the list and their individual workbooks.

## **(5) Adjournment:**

The meeting was adjourned at approximately 11:00 AM with the understanding that the Audit Team would complete at least 10 reviews over the next several days and provide their audit results electronically to Russ Thornton by noon on September 9, 2020.

## **In Attendance for September 10, 2020 Audit Wrap-Up**

Andy Lewis	State Farm Insurance
Keith Howard	Hanover Insurance
Dan Pendleton	Kentucky Farm Bureau Insurance Companies
Henry Goins	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Manager
Russ Thornton	Kentucky FAIR Plan – Claims & Underwriting Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager

## **(1) Welcome and Introductions / Call to Order:**

Ms. Lux called the meeting to order promptly at 2:00 PM. Introductions were made, and attendees confirmed.

## **(2) Anti-Trust Preamble:**

Ms. Lux reminded the group that we are bound by the Anti-Trust Preamble provided to them.

## **(3) Auditor's Feedback and Trends:**

The following feedback and trends were discussed:

- Files were handled timely and, in many cases, included same-day contact.
- The documentation provided by the Independent Adjuster firm was thorough and accurate.
- Positive results of the audit with comments on overall good quality, substantial documentation, and timely, accurate decisions.

## **(4) Assignment of Executive Summary:**

Henry Goins, Kentucky Farm Bureau, has agreed to complete the Executive Summary and provide it to Mr. Thornton by Wednesday September 16, 2020.

## **(5) Adjournment:**

Having no other business to discuss, the meeting was adjourned at approximately 2:20 PM.



**Respectfully Submitted,**

*Russ Thornton*

**Russ Thornton  
Claims and Underwriting Manager  
Kentucky FAIR Plan Reinsurance Association**

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
REINSURANCE AND EQUITY COMMITTEE MEETING

---

Pursuant to notice, a meeting was held at 1:30 PM on September 10, 2020 via teleconference.

Present:

Kristen Mellinger	Kentucky Farm Bureau Insurance Company
Roman Henderson	Travelers Insurance Company
Mark Hillis	Kentucky FAIR Plan – Executive Director
Melissa Chlon	Kentucky FAIR Plan – Assistant Director

1. Call to Order:

Mr. Hillis was Chair for the meeting. He called the meeting to order and took roll. Mr. Hillis noted a quorum was present.

2. Anti-Trust Preamble:

Mr. Hillis reminded the committee that members are bound by the Anti-Trust Preamble provided in the meeting documentation.

3. Minutes Review:

Mr. Hillis noted that Minutes of the September 19, 2019 committee meeting were included, and had been approved by the Governing Committee during its fall meeting.

4. Reinsurance Renewal:

Mr. Hillis discussed the background of the decision to first purchase reinsurance in October 2006 and reviewed the Plans decision to subsequently renew the treaty annually since that time. He noted that in 2013 the decision was made to secure a two-year term for 50% of the treaty with the remaining 50% placed on a one-year term. In 2014, when the one year term expired, it was also renewed on a two year term. This retained rate continuity since only 50% of the treaty would become due each year.

Mr. Hillis stated that quotes and modeling results have been obtained from Guy Carpenter for the 2020 to 2022 term, which will continue to be a two year term for 50% of the layer. The Plan continued to provide improved street-level data which was analyzed by RMS, RiskLink, to determine the Plans exposure to Earthquake and Convective Storm. Probable maximum loss analytics and a quote summary documenting deposit premiums and rates for varying treaty layers were presented and discussed.

Guy Carpenter has secured one year renewal coverage for 50% of the expiring layer with reinsurance carriers rated A, or better, by AM Best. The decision to make this a one year term is driven by the need to be able to place the full package out for bid on an annual basis in 2021 and to attempt to secure the most competitive quotes. The 2020-2021 quote represents premiums driven by the declining size of the FAIR Plan as well as better data for modeling, but impacted adversely by the lack of business placed by the Plan, and a hardening reinsurance market. Ascot Re has quoted \$7,000,000 excess of \$3,000,000 at 3.7215% with a \$120,000 deposit, as well as

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
REINSURANCE AND EQUITY COMMITTEE MEETING

---

Sirius Re has quoted these same limits with a rate of 3.8081% and a \$120,000. Firm order terms were presented to the markets based upon Ascot's quote and is being filled.

During prior years the Plan carried \$7,000,000 excess of \$3,000,000 coverage and Mr. Hillis advised that although alternative coverage options were explored they were not cost effective when the loss history and PML were considered. With the current offering, he suggested that the \$7,000,000 cover be considered for continued protection of members.

Mr. Henderson made a motion to approve the recommendation to purchase coverage of \$7m xs of \$3m, Ms. Mellinger seconded, and the motion carried.

5. Review of Member Equity Policy:

Mr. Hillis advised that the Plan's Member's Equity position after last years \$5m disbursement was \$16,130,005.

6. Other Business:

Mr. Hillis provided an update on the Plan facilities, noting that the Plans were moving to their new facilities next week, and that a lot of work had been done by the Plans with impacts upon contractors driven by Covid having slowed the initial process down. But noted that the new facilities were very nice, and the Plan was able to return \$1m from the sale of the prior building to cash.

Mr. Hillis further advised that the next Governing Committee meeting is scheduled for October 22, 2020.

7. Adjournment:

There being no further business, the meeting was adjourned with unanimous consent.

Respectfully submitted,



Mark Hillis  
Executive Director

# FAIR PLAN REINSURANCE ASSOCIATION

## FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 2:00PM on September 23, 2020 via teleconference.

Present for the meeting:

Carrie Schaaf	Kentucky Farm Bureau Mutual Ins.
Rudy Schlich	Old Kentucky Insurance
Lisa Pierce	Allstate Insurance Company
Mark Hillis	Kentucky Insurance Plans
Melissa Chlon	Kentucky FAIR Plan
Tina Faleide, CPA	Kentucky FAIR Plan
Steven L. Holley, CFM	Merrill Lynch

**1. Call to Order:**

Mr. Hillis called the meeting to order and noted that a quorum was present.

**2. Anti-Trust Preamble:**

Mr. Hillis reminded the committee that they are bound by the anti-trust preamble.

**3. Approval of Minutes:**

Mr. Hillis noted that documents had been provided prior to the meeting. Minutes were approved by the full Governing Committee this past spring.

**4. Report of the Executive Director:**

Mr. Hillis provided a report showing change in written premium, assets, liabilities and members equity. He further shared Loss, Expense and Combined Ratio results.

The balance in the Republic Bank account reflected a total of \$1,304,211 as of August 31, 2020. The ICS (Insured Cash Sweep) account has a balance of \$750,152. Totaling \$2,054,363.

Mr. Hillis led a general discussion about industry and market changes due to the current environment. The Plan has remained in frequent contact with the Kentucky Department of Insurance to ensure the policyholder needs are met.

**5. Report to the Investment Custodian – Steve Holley:**

Mr. Holley presented a review of the investment assets including a discussion of the bond and mutual fund portfolios. He advised that the Plans bond ladder was good, as well as the individual bond ratings.

The Plans current holdings are 7.99% cash, 23.87% equity and 68.14% fixed income.

A brief discussion took place relating to the volatility of the market and the potential impacts of the current economic and political news.

Mr. Holley reviewed the annual bond income of approximately \$385,300 which averaged just over \$32,000 monthly. He noted that he had spoken with Mr. Hillis in mid-March about re-starting the equity purchase program, and that they are now presenting this to the Investment Committee. After general discussion, the Committee fully supports restarting the monthly auto purchasing program. Monthly gains of around \$32k will be placed into the purchasing program with 50% going to value funds and 50% blend funds.

**6. Investment Analysis – Carrie Schaaf:**

Ms. Schaaf discussed the bond and mutual funds analysis report that she had completed. Ms. Schaaf noted that she continued to agree with the investment and reinvestment strategy noting that given the recent market changes, sticking with the long-term investment plan remains prudent. She reported on two funds which continued to under-perform. And indicated that she would continue to review, and report upon these funds again during the spring meeting should they continue to under-perform.

Ms. Schaaf led a general discussion around how often funds were reviewed and potentially swapped out for better performing mutual funds.

**7. Other Business:**

Mr. Hillis advised that the next Governing Committee meeting is scheduled for 10:30 am on October 22, 2020.

**8. Adjournment:**

There being no further business, the meeting was adjourned by unanimous consent.

Respectfully Submitted



Mark Hillis  
Executive Director / Secretary Treasurer

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**  
**2020**  
**UNDERWRITING AUDIT**

**August 19 & 26, 2020**

**Submitted by the Underwriting Committee:**

**Dwayne Taylor, State Farm Insurance**

**Lori Comella, Kentucky Farm Bureau**

**Oliver Casey, CNA**

**Executive Summary:**

The 2020 Underwriting Audit was conducted virtually between August 19 and August 26, 2020. Following the reading of the Anti-Trust Preamble, Steve Shubert welcomed the group, provided introductory remarks, and led the group through a brief review of the computer system (Finys). Each auditor was provided with training material which included the Kentucky FAIR Plan Manual, the Articles of Association, and other supporting documents such as policy quick-reference guides. An Underwriting Audit worksheet was completed for each file reviewed. Following the completion of the audit and corresponding worksheets, a discussion of the trends and general feedback was held.

This executive summary provides an overview of the audit results from all files reviewed for the 2020 audit as it relates to the performance of the Kentucky FAIR Plan's Underwriting Department.

Subject to the Articles of Association, Article VI Section 4(b) provides authority to the Audit Committee as follows recognizing that the FAIR Plan is a residual market mechanism which includes allowing for the placement of distressed business existing in part to serve a social need, without focus on providing a proprietary profit:

*It shall be the duty of the Underwriting Committee to meet on call to conduct underwriting audits of applications and policies randomly selected and to assist the Plan's Underwriting Department by reviewing, and making recommendations for changes in, underwriting procedures and the Plans policies and forms. In determining such issues, the Underwriting Committee shall apply only those rules or standards prescribed by the Association and its Governing Committee. It shall also be ever mindful that the Association operates as a residual market mechanism for the placement of distressed business and as such is intended to serve a social need rather than provide a proprietary profit.*

## **Review Criteria:**

A total of **30** files were selected at random from **1,017** possible underwriting files. Files reviewed included commercial, homeowner, dwelling fire, and farm fire policies. The list represents policies in effect between July 1, 2019 and June 30, 2020. The list was compiled from the Finys system and provided to the auditors. The source of the list was the Reinsurance Report.

The number of files reviewed is a sufficient number to formulate opinions and recommendations based upon the total amount of files handled by the Kentucky FAIR Plan Reinsurance Association between July 1, 2019 and June 30, 2020.

As per Article VI.4. (c) of the Articles of Association, the Underwriting Department shall review each application and determine if such risk is either:

1. Acceptable as applied for
2. Acceptable with lesser limits than applied for
3. Acceptable with specified condition charges
4. Not acceptable but may become so if specified improvements or repairs are made and confirmed; or
5. Not acceptable for reasons specified.

From our review, the underwriting team is applying the above criteria appropriately in their decision-making process.



**Summary of Audit Findings:**

Yes	Applications are reviewed and addressed within Plan standards and are completed within Article VI.2. (c), ("Deemer provision") of the Articles of Association.
Yes	Policies are issued with proper limits as prescribed in Article VI. 3. (b) of the Articles of Association.
Yes	Correspondence is in accordance with guidelines outlined in the Articles of Association and/or within the scope of generally recognized best business practices.
Yes	Action items other than applications are responded to within Plan standards and/or within generally recognized best business responsiveness.
Yes	Policies are being issued and serviced appropriately, and with supporting documentation.
Yes	The Kentucky FAIR Plan is being managed in an effective manner.
Yes	The Underwriting staff is effectively communicating with producers to service business placed in accordance with the Articles of Association.
Yes	<b>Kentucky FAIR Plan manual rules and guidelines are being followed.</b>

**Overall file adequacy: 97% (Adequacy = # yes (167) / # of yes + # of no (172))**

**Audit Observations and Recommendations:**

- **Observation:** All auditors agreed that the files were documented well, handled timely, and generally in very good condition. It was a challenge for the auditors to find negative conditions. The files had adequate comments to support decisions made.
- **Observation:** The virtual format of the meeting and the timing of the week-long audit was agreeable to all auditors. The audit went smoothly and felt very efficient; each auditor agreed they could have completed more reviews. The audit sheet was streamlined and effective and led to a more focused and less time-consuming audit.
  - Ms. Lux advised that in 2021, we will ask them to review more files.
- **Observation:** In an effort to be even more efficient, it was recommended that online tools used during the valuation need not be saved / uploaded to the file as this is public information, available at any time.
- **Observation:** Discussion was held around the documentation supporting the need for a policy to be written in the FAIR Plan. The majority of files clearly indicated why the application was with the FAIR Plan.
  - Ms. Lux advised that as a result of our 2019 audit, we are adding language to the online application to further emphasize the need for producers and insureds to exhaust all efforts prior to applying with the FAIR Plan.

**Submitted by Auditor & Underwriting Committee Member:**

*Lori L. Comella*

8-26-20

---

Lori Comella; Kentucky Farm Bureau

---

Date

## Addendum

### Compliance with Department of Insurance Regulations and the Articles of Association:

The audit team recognizes that due to KRS 304.20-300(2)(b), the Kentucky FAIR Plan is not obligated to cancellation, declination, and refusal regulations found in KRS 304.20-320 to 304.20-350 since it is a residual market mechanism. *(2) KRS 304.20-320 to 304.20-350 does not apply to:*

*(a) Automobile liability insurance policies protected by KRS 304.20-040; or*

*(b) Any policy issued through a residual market mechanism.*

As such, the **Articles of Association** serve as the guidance mechanism for the Kentucky FAIR Plan on these issues.

**Article VI subsection 6** addresses denials, cancellations and non-renewals.

### Denial/Cancellation/Non-Renewal:

(a) Denial, cancellation, or non-renewal of any applicant/insured must be authorized by the Underwriting Department. The Underwriting Department shall have authority to deny, cancel, or non-renew any application or policy based on any grounds in the reasonable discretion of the Underwriting Department, including, but not limited to, the existence of any one or more of the following conditions:

- (1) anticipated owner or occupant incendiarism;
- (2) at least 65% of the rental units in the building are unoccupied, and the insured has not obtained prior approval from the Underwriting Department of a rehabilitation plan which necessitates a high degree of unoccupancy;
- (3) property damage exists and more than 60 days have elapsed as to indicate that the damage will not be promptly repaired;

- (4) following a loss, permanent repairs following satisfactory adjustment of loss have not commenced within 60 days;
- (5) property has been apparently abandoned or there has been removal of undamaged salvageable items from the building and the insured can give no reasonable explanation for such removal;
- (6) utilities such as electric, gas, or water services have been disconnected and, if for non-payment of service bills, the insured has failed to pay his account for such services within 60 days, or real estate taxes have not been paid for a two-year period after the taxes have become delinquent (real estate taxes shall not be deemed to be delinquent for this purpose even if they are due and constitute a lien, so long as a grace period remains under local law during which such taxes may be paid without penalty);
- (7) conviction or unresolved indictment of a named insured or loss payee, or any other person having a financial interest in the property, of the crime of arson or crime involving a purpose to defraud an insurance company;
- (8) where the building or the named insured has been subject to two or more fires, each loss amounting to at least \$500 or one percent of the insurance in force, whichever is greater, in any 12-month period; or three (3) such fires in any 24-month period, at the discretion of the underwriter.
- (9) Material misrepresentation
- (10) Non-payment of additional initial or increased hazard premium; or
- (11) Failure of the insured or his/her agent to timely furnish when due additional primary or supplemental underwriting information requested by the facility.
- (12) Other conditions proposed by the Underwriting Department and adopted by resolution by the Underwriting Committee as established herein.

(b) After a policy has been in effect for more than 60 days, there shall be no cancellation or refusal to renew the policy without a 30-day written notice to the insured, except that a written notice of not less than five days before the effective date of cancellation or non-renewal may be used if one or more of the specific conditions set out in Section 6(a) above is present.

(c) Each notice of denial, cancellation, or non-renewal shall contain a statement of the reason

therefor. It shall be sent to the insured at the last known address with copies sent to the mortgagee, if any, and the insured's Producer.

(d) Any denial, cancellation, or non-renewal notice to the insured shall be accompanied by a statement that the insured has a right of appeal as provided in Article X below.

(e) The Underwriting Department shall reinstate, without lapse in coverage or additional charge, any policy cancelled solely because of non-payment of additional initial or increased hazard premium, if and when full and complete payment of all premiums due are received before the termination date contained in the notice of denial, cancellation or non-renewal. Such reinstatement of coverage is conditioned upon any check tendered for premium payment being honored when presented for payment.

(f) Non-payment of any renewal premium shall result in lapse of the policy as of the renewal date and only a notice of such lapse shall be sent to the insured within 15 days following the lapse in coverage.

(g) No coverage will be effective if the insured's premium remittance, which accompanies the application is dishonored by the financial institution.

(h) A charge for checks returned by a bank or financial institution due to insufficient funds (NSF) may be made by the Plan.

### **Inspection Ordering:**

The Kentucky FAIR Plan adheres to the following inspection ordering guide for new and renewal policies placed with the Plan.

1. Inspections are ordered based on Underwriter's discretion for new business applications for Dwelling Fire and Farm Fire.
2. Renewals are inspected via a report ordering system programmed into Finys.
3. Inspections should be ordered upon issuing a new Commercial Fire or Homeowner application unless specifically documented as to why it is not necessary.

# **KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**

**2020**

## **CLAIMS AUDIT**

**September 2-September 10, 2020**

**Submitted by:**

**Andy Lewis, State Farm**

**Keith Howard, Hanover**

**Dan Pendleton, Kentucky Farm Bureau**

**Henry Goins, Kentucky Farm Bureau**

**Don Wafzig, Kentucky Farm Bureau**

The audit was conducted virtually from September 2, 2020 to September 10, 2020. 264 files were provided and 50 were randomly selected for review. We prepared a Kentucky Claims Audit worksheet for each file reviewed which was rolled up in totality. These were provided to the claims department upon our departure.

**SAMPLE:**

Number of files reviewed: 50  
 Number of files presented for review: 264  
 Date range of files presented for review: 9/1/19 – 8/1/20

**RESULTS:**

Section	Acceptable	Not Acceptable	Comments
Timely Assignment to IA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category
Contact / Communication	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category
Coverage Review	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category
Investigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category
Documentation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Almost no exceptions
Kentucky Claims Handling Standards	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category
Loss Payment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category
Subrogation / Salvage	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category
Overall File Quality	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Excellence in this category

**Compliance with Regulations**

This audit committee, all being adjusters who hold active licenses in the Commonwealth of Kentucky are all familiar with KRS 304.12-230 the Unfair Claims Settlement Practices; KRS 304.12-235 Timely Payments of Claims; and KRS 304.35 FAIR Plan Reinsurance Association.

Were the following behaviors identified during this audit: No

- Misrepresenting facts related to coverage
- Failure to act promptly to all communications
- Failure to promptly investigate a claim
- Refusal to pay a claim without first conducting a reasonable investigation
- Failure to affirm or deny coverage within a reasonable amount of time
- Failure to promptly pay the fair amount owed on a claim
- Compelling insureds to institute litigation
- Failure to include a statement explaining which coverage the payment is being made under
- Compelling insureds to accept compromise settlements in order to settle the claim
- Delaying the investigation or payment without a substantial need to do so

- Requesting duplicative information without a substantial need for it
- Failure to explain the facts supporting the denial or offer of compromised settlement

If yes, please explain:

**SUMMARY OF FINDINGS AND RECOMMENDATIONS:**

Overall file adequacy: 99.42 %

Observations from this audit:

- (1) Files were handled timely and, in many cases, included same-day contact.
- (2) The documentation provided by the Independent Adjuster firm was thorough and accurate.
- (3) Positive results of the audit with comments on overall good quality, substantial documentation, and timely, accurate decisions.

**Conclusions:**

Yes	The number of files reviewed for this audit represented a sufficient sample of the claims operation.
Yes	The Kentucky FAIR Plan is being managed in an effective manner.
Yes	Coverage is being correctly documented and denial letters are being sent in writing, if appropriate.
Yes	Independent adjusters are being assigned timely.
Yes	Covered losses are being settled promptly.
Yes	The Kentucky FAIR Plan claims department is effectively communicating with all relevant parties, to include, IA firms, insureds, and producers.
Yes	<b>Claims are being handled appropriately, and in accordance with KRS 304.12-230.</b>

Henry Goins, MCM, AIC, SCLA  
 \_\_\_\_\_  
 NAME OF PERSON

9/11/2020  
 \_\_\_\_\_  
 (Date)



# Kentucky FAIR Plan

## Budget

	2020 Budget	2020 as of 6/2020	2020 Proj.	2020 Projected as % of Total	2021 Budget
Accounting Fees	19,000	17,390	17,390	91.53%	19,000
Actuarial Review	9,400	4,400	4,400	46.81%	17,600
Board Meetings	700	0	0	0.00%	350
Bldg-Repairs & Maint.	35,320	18,328	31,328	88.70%	22,616
Building-Utilities	16,647	8,326	14,326	86.06%	10,800
Building-Taxes	19,836	2,090	9,333	47.05%	7,243
Computer	59,306	22,814	45,628	76.94%	68,231
Dues & Subscriptions	1,615	758	1,516	93.87%	2,590
Education	2,953	1,950	3,900	132.07%	5,448
Empl. Portion-401-K	21,704	9,642	19,284	88.85%	21,021
Filing Fees	420	0	0	0.00%	420
Health Insurance	107,312	62,190	124,380	115.91%	127,403
Human Resources	14,950	5,657	13,314	89.06%	15,075
Inspections	51,397	22,307	60,000	116.74%	52,000
P & C Insurance	23,938	60	29,793	124.46%	32,772
Legal/Professional	7,000	3,634	7,268	103.83%	30,750
Meals & Ent.	1,500	696	1,392	92.80%	1,350
Membership Fees	41,132	27,834	40,267	97.90%	40,867
Miscellaneous	1,200	1,034	2,068	172.33%	1,200
Office Equipment	2,400	85	2,400	100.00%	1,500
Office Supplies	5,000	1,091	4,000	80.00%	4,000
Payroll Fees	5,343	1,956	3,912	73.22%	3,640
Payroll Tax	72,347	24,978	49,956	69.05%	70,071
Pensions	95,499	42,340	84,680	88.67%	92,493
Postage	9,475	7,701	15,402	162.55%	8,952
Printing	2,380	7	1,000	42.02%	2,380
Processing	171,481	37,603	141,636	82.60%	166,283
Repairs & Maint.-Off. Eq.	4,845	2,159	4,318	89.12%	4,868
System Enhancements	80,000	16,092	76,092	95.12%	60,000
Telephone	10,940	4,938	9,876	90.27%	22,528
Travel	9,250	2,225	4,450	48.11%	9,250
Wages	723,474	332,391	664,782	91.89%	700,708
<b>Totals</b>	<b>\$1,627,764</b>	<b>\$682,676</b>	<b>\$1,488,091</b>	<b>91.42%</b>	<b>\$1,623,408</b>

## Kentucky FAIR Plan Committee Assignments – 2020

<b>Committee</b>	<b>Member</b>	<b>Company</b>
<b>Executive Committee</b>	Kristen Mellinger	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Mark Hillis -Executive Director	Kentucky FAIR Plan
<b>Investment Committee</b>	Lisa Pierce	Allstate Insurance Co.
	Carrie Schaaf	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Steve Holley	Investment Advisor – Merrill Lynch
	Mark Hillis - Executive Director	Kentucky FAIR Plan
<b>Members Equity and Reinsurance Committee</b>	Kristen Mellinger	Kentucky Farm Bureau
	Roman Henderson	Travelers
	Steve Simkims	State Farm
	Mark Hillis – Executive Director	Kentucky FAIR Plan
<b>Audit Committee</b>	Carrie Schaaf	Kentucky Farm Bureau
	Steve Simkims	State Farm
	John Miner	Kentucky National Insurance Company
	Tina Faleide	Kentucky FAIR Plan
<b>Products and Forms Committee</b>	Kristen Mellinger	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Anna Etherington	Liberty Mutual
	Erin Lux	Kentucky FAIR Plan
<b>Underwriting Committee</b>	Lori Comella	Kentucky Farm Bureau
	Dwayne Taylor	State Farm
	Oliver Casey	C.N.A.
	Erin Lux	Kentucky FAIR Plan
<b>Claims Committee</b>	Henry Goins	Kentucky Farm Bureau
	Dan Pendleton	Kentucky Farm Bureau
	Andy Lewis	State Farm
	Don Wafzig	Kentucky Farm Bureau
	Keith Howard	Nationwide
	Russ Thornton	Kentucky FAIR Plan
<b>KAIP Compensation and Benefits</b>	Lisa Pierce	Allstate Insurance Co.

PIPSO SEMI-ANNUAL REPORT  
OF PROPERTY INSURANCE PLAN COVERAGE

Line #	Description	YEAR-TO-DATE DATA
		DATES REPORTED
		01/01/20 to 09/30/20
	<b><u>NEW BUSINESS</u></b>	
1	Number of applications accepted	855
2	Number of inspections completed	855
3	Number of new policies issued	855
	<b><u>RENEWAL BUSINESS</u></b>	
4	Number of requests for renewals	4,714
5	Number of renewals inspected	1,514
6	Number of renewal policies issued	4,714
	<b><u>RESULTS BY CLASS OF BUSINESS</u></b>	
	<b><u>Number of policies issued (new &amp; renewal)</u></b>	
7	Habitational	5,344
8	Commercial	225
	<b><u>Total Premium Written (000)</u></b>	
9	Habitational	2,727
10	Commercial	223
	<b><u>Total exposure (000)</u></b>	
11	Habitational	341,066
12	Commercial	16,280
	<b><u>LOSSES BY CLASS OF BUSINESS</u></b>	
	<b><u>Number of Losses Reported</u></b>	
13	Habitational	224
14	Commercial	8
	<b><u>Number of Losses Paid</u></b>	
15	Habitational	137
16	Commercial	5
	<b><u>Total Paid Losses (000)</u></b>	
17	Habitational	1,425
18	Commercial	23
	<b><u>Total Outstanding Losses - Case Basis (000)</u></b>	
19	Habitational	118
20	Commercial	4