Kentucky FAIR Plan Reinsurance Association

October 13, 2022

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 28, 2022 via teleconference and in person at 327 Townepark Circle, Louisville, KY 40243.

Agenda:

1. Roll Call
2. Anti-Trust Preamble Reminder
3. Approval of Minutes
4. Committee Reports
5. Executive Director's Report
6. 2023 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: Deputy Commissioner Shawn Boggs, Kentucky Department of Insurance
Governing Committee Members

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
GOVERNING COMMITTEE

Governing Committee Member	Affiliation
Rudy Schlich (Chair) Old Kentucky Insurance 915 Lily Creek Road Louisville, KY 40243 (502) 451-8800 Rudy.Schlich@oldkyins.com	Agent (d)
John Miner (Vice Chair) Kentucky National Insurance 2416 Sir Barton Way Lexington, KY 40509 (859) 519-1054 jominer@kynat.com	Domiciled (a)
Lisa Pierce Allstate Insurance Company 555 Marriott Drive, Suite 700 Nashville, TN 37214 (615) 902-7053 Lisa.pierce@allstate.com	APCIA –Affiliated (c)
Kristen K.W. Mellinger Kentucky Farm Bureau Mutual Insurance Co. 9201 Bunsen Parkway Louisville, KY 40220 (502) 495-5000 x 7499 Kristen.Mellinger@kyfb.com	Domiciled (a)
Todd Feltman State Farm Insurance Co. 1 State Farm Plaza, D-1 Bloomington, IL 61710 (309) 763-5792 todd.feltman.c0hu@statefarm.com	Non Affiliated (b)
Keith Howard Hanover Insurance 440 Lincoln Street Worcester, MA 01653 W: 859-229-8017 khoward@hanover.com	APCIA –Affiliated (c)
Jay Kepperling Nationwide Mutual Insurance Company 1 Nationwide Plaza Columbus, OH 43215 502-645-9562 jay1@nationwide.com	NAMIC (c)

Kentucky Department of Insurance Representative and Kentucky FAIR Plan Staff

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

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.

The Annual and Governing Committees meetings of the Kentucky FAIR Plan were held at 10:30 AM on June 2, 2022.

Those present:

Governing Committee:

Rudy Schlich	(Chair)	Old Kentucky Insurance
John Miner	(Vice Chair)	Kentucky National Insurance
Kristen Mellinger		Kentucky Farm Bureau Ins. Co.
Todd Feltman		State Farm Insurance Co.
Jay Kepperling		Nationwide Mutual Insurance Co.
Lisa Pierce, J.D.		Allstate Insurance Co.

Kentucky Department of Insurance:

Shawn Boggs	Deputy Commissioner, Kentucky DOI

Other:

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. Schlich called the meeting to order and held roll call for the committee members and guests and noted that a quorum was present. Mr. Howard representing Hanover Insurance was not present but appointed Mr. Kepperling as his proxy.

2. Antitrust Preamble:

Mr. Schlich reminded the Committee that all members are bound by the Anti-Trust Preamble which was provided in the meeting documents.

3. Approval of Minutes:

The Committee reviewed minutes of the October 28, 2021, Governing Committee Meeting; March 9, 16, and 23, 2022, Finance and Investment Committee Meetings; April 20, 2022, Product and Forms Committee Meeting; and, April 20, 2022, Audit Committee Meetings which were distributed with the meeting documents. The Committee reviewed the mail vote approval confirming ARGI as the investment custodian effective April 30, 2022. Mr. Feltman moved, and Ms. Mellinger seconded to approve the minutes of the committees and ratify the mail vote. All voted in favor and the motion passed.

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. Todd Feltman of State Farm. A motion was made by Mr. Kepperling to approve Mr. Feltman and seat the Committee for the coming year. The motion was seconded by Mr. Miner. Mr. Feltman abstained, all others approved, and the motion carried.

5. Election of Officers:

Mr. Hillis thanked Ms. Mellinger for her incredible leadership as the Chairperson of the FAIR Plan from 2014 through 2021.

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

6. Auditors Report and Financial Statement:

The 2021 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 Financial Highlight report and allowed an opportunity for questions, of which there were none.

Ms. Antle noted one adjustment made annually to record the income tax expense and one adjustment waived annually representing a minimal PTO amount.
Ms. Antle explained that her firm issued an unmodified opinion on Statutory Basis of Accounting noting that adequate controls were in place and the audit firm was reporting a clean audit with no irregularities noted.

Mr. Hillis thanked Ms. Antle for her many years of service to the Kentucky Plans and commended her on expanding DMLO's auditing service to other residual market mechanisms nationwide.

7. Executive Director's Report:

Ms. Chlon presented a status report of 2021 results indicating:

- Written premium declined by just under 17% compared to 2020.
- New business applications were down by 8.77% compared to 2020.
- In-force policies declined by 13.32% compared to 2020 ending the year at 5,077.
- Operating expense ratio increased from 29.33% in 2020 to 34.45% in 2021.
- Reported claims declined slightly with 230 reported.
- The Loss ratio increased 7.6% to 49.9%, while the LAE ratio increased 5.4% to 24.21%
- The Combined ratio increased from 99.68% in 2020 to 115.55% in 2021.
- The Members Equity position at year end 2021 was $17,381,635 up from $16,894,891 at year end 2020. Ms. Chlon reminded the committee that the Plan

successfully distributed $4.9 million back to the industry in December 2019 and that future disbursements will be discussed in the fall sub-committee meeting.

Budget:

Ms. Chlon noted that the Plan ended 2021 6.3% under budget. She explained that the budget is approved before health insurance rates are received from the vendor and forecasted premium used to calculate the 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 and Ms. Chlon shared that the Alliance income for 2021 was $71,000.

The largest factor in the 2021 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 via the Cost Sharing Agreement.

Ms. Mellinger asked a question related to the Systems/PASS line item, Ms. Chlon explained that this amount represents statements of work for our policy administration and claims system enhancements. This line item does not include the annual maintenance fee to the vendor. Examples of these necessary enhancements included the transition to a print vendor, sending commission statements via email versus paper mail, and the renewal questionnaires which are a part of our depopulation efforts.

General conversation took place regarding the education budget and how adjuster licenses, Institutes classes (AINS, AU, etc.), CPA continuing education, etc. were included.

First Quarter 2022 results:

Results were summarized and Ms. Lux reported that:

- Written premium decreased by 17.2%, ending Q1 2022 at $725,657.
- New applications are down 32% when compared to Q1 2021.
- Policies in force declined by just under 15% compared to Q1 2021, ending Q1 2022 at 4,831.
- Depopulation efforts are in place which include:
    - Flyers sent with new business and renewals.
    - Questionnaires to producers ahead of renewals on some lines of business.
    - Inspecting policies every three to five years to ensure accurate underwriting and the need for said policy to remain with the FAIR Plan.
    - Mr. Hillis further noted that claims data is reported back through ISO to ensure carriers can see a full claims history if the risk returns to the standard market.
- The most basic form offered by the Plan, DP-1, represents 77% of in-force policies.
- The distribution of new claims reported during the first quarter of 2022 was also discussed, noting wind and hail being the majority.
- Claims reported in 1st quarter were made up mostly of wind/hail at 67%.

Ms. Lux noted that volume of applications, policies in-force, and claims are down compared to last year however if the market swings, the Plan has a staff and system in-place that can meet those needs.

Reinsurance:

Ms. Lux advised that the Plan's reinsurance treaty limits are $5,000,000 in excess of $2,000,000 and the term runs from 10/1 to 9/31. Renewal data will be provided at the end of June 2022 with renewal quotes to follow. Mr. Hillis and our broker, Guy Carpenter were in contact following the recent tornados, noting that our exposure was not close to the retention figure.

When quotes are available, a meeting of the Reinsurance and Equity Committee will be scheduled to consider the quotes and to discuss the equity position of the Plan in accordance with the Governing Committee Policy, Members Equity and Distribution to Members.

Mr. Miner mentioned the opportunity for reinsurance partnerships within the Alliance noting a potential benefit for members.

Mr. Hillis provided more detail about the change in our treaty limits for current year compared to prior years, relative to the Plan's equity and written premium. Mr. Hillis shared that our equity position lends to another potential disbursement and that he has notified the Insurance Commissioner about same, as well as the potential to update language in our Articles of Association around this topic.

Mr. Hillis continued that the Kentucky FAIR Plan is one of only three Plans across the country that have language in their Articles of Association that require Department of Insurance approval to disburse funds back to the industry. Mr. Hillis explained that when considering the Plans' equity position relative to written premium, our equity position is at six times written premium. The FAIR Plan was not meant to be a custodian of the insurance industry's money. The Kentucky FAIR Plan has not assessed in 30 years which is a testament to our responsibility in decision making and being good stewards. Any change in the language of the Articles will go to the Department for approval, specifically a change where the Plan may recommend a change to require notification to the Department, not approval from the Department, to disburse funds back to the industry.

8. Other Business:

Financial Advisor Transition:

Ms. Chlon noted that the FAIR Plan received communication from Merrill Lynch that they would no longer service the portfolio of the Plan. This led the Plan to immediately begin an RFP process as well as engage the Finance and Investment Committee to select the vendor to service our Plan moving forward. Five firms were vetted throughout this process and, with significant support from the Finance and Investment Committee, and the mail votes from the full Governing Committee, ARGI was selected as the Plans new investment advisor.

FAIR Plan Cost Sharing Alliance:

Mr. Hillis shared the current participation of other FAIR Plans in the Cost Sharing Alliance. Kentucky is currently assisting or providing for complete handling of underwriting, accounting, print services, IT/computer projects and claims support for some, all or part of the Illinois, Wisconsin, Missouri, and Indiana FAIR Plans.

The other participants of the Alliance have reduced their respective staff by five full time associates, with more planned retirements in the future. With the addition of one associate, the workload has been absorbed by the efficient staff of the Kentucky Plan. Additional staffing may be needed as more work transitions to Kentucky, specifically an employee with a strong IT background that can be allocated between the Alliance Plans. Over $71,000 was billed to Alliance members in 2021 noting their respective savings were well over $500,000.

In addition to a request from the WV, PA, and DE FAIR Plan to consider IT and systems assistance, the Illinois FAIR Plan's Governing Committee approved replacing four retiring staff members in Kentucky through the Alliance. Further, the Minnesota FAIR Plan has made a request for Kentucky to either assist with or back up their underwriting.

The Alliance anticipates billing $150,000 in 2022. Mr. Hillis noted that employees continue to bill hourly with manual tracking by the Kentucky team until reliable patterns can be established.

Mr. Hillis shared the next steps for the FAIR Plan Alliance. These include drafting Articles of Organization and the establishment of the FAIR Plan Cost Sharing Alliance as an LLC. Both of which require the assistance from legal counsel and DMLO to confirm that the Kentucky FAIR Plan is protected.

Finally, Mr. Hillis noted the operational efficiencies the Alliance would foster, by FAIR Plans of similar size, as well as the insurance industry as a whole. Kentucky, through the Alliance, is trying to change the mindset to one of responsibility and efficiency, keeping what is best for consumers at the forefront.

In order to clearly define services, and utilize the most cost-effective solutions, an Alliance Committee would benefit not only the Kentucky FAIR Plan, but all participants of the Alliance. A Committee would assist in determining next steps for the Alliance and specifically consider the future, structure, and potential liability as it relates to the Kentucky FAIR Plan.

General discussion took place regarding standardization among the Plans, communication at state specific DOIs, and PIPSO's lack of interest in the Alliance. Mr. Kepperling motioned to approve the Alliance Committee as well as the Committee Charter which includes appointments to State Farm and Kentucky Farm Bureau. Mr. Miner seconded, and the motion to create an Alliance Committee and accept the Committee charter as presented in the meeting documents carried.

Ms. Lux shared claims volume for Q1 2022 relative to the Alliance claims participants, noting that Kentucky FAIR Plan made up 41% of incoming claims and 30% of the pending.

She also noted that Alliance Plan Managers advised that level of claims communication as increased significantly, for the better.

Team Engagement Opportunities

Ms. Chlon shared an exciting opportunity the Plans had with a local business to purchase food, toys, clothes and more for victims of the December 2021 tornados in Kentucky. The Plans also participated in an initiative to increase awareness of hunger issues and provide assistance to those in need. Also, on a local level, Plan employees found creative ways to support local schools and the hard-working staff of those schools.

PIPSO Report:

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

Committee Assignments:

Ms. Chlon advised that updated committee assignments were included in the meeting materials. Further noting that auditors will be added to the underwriting and claims committees to account for recent retirements. She asked for questions regarding the assignments and there were none.

Kentucky Department of Insurance Comments:

Mr. Schlich thanked Deputy Commissioner Boggs for representing the Department of Insurance and invited any updates or comments.

Deputy Commissioner Boggs expressed his appreciation to the Plan and the industry. He also noted that the Department and Commissioner Clark appreciate the frequent communication from the Plans. He further noted that the DOI is here for the Plans and the industry. Mr. Boggs noted that the Department is still on a hybrid schedule however he and Commissioner Clark are in the office together typically on Tuesdays and Wednesdays. Finally, he explained that the Department is not immune from the staffing issues many in the industry are facing as they have four openings in the property & casualty department and have had very few qualified candidates.

Next meeting:

Mr. Schlich noted that the fall meeting will be in-person at the Plan's office. The next meeting date is set for October 27, 2022, at 10:30 AM.

9. Adjournment:

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

Respectfully Submitted,

Melissa Chlon
Assistant Director / Plan Manager

FAIR PLAN ALLIANCE

2022 Claims Audit Committee Meeting Minutes

The 2022 Claims Audit was conducted virtually with meetings on July 13, 2022, and July 21, 2022.

Kick-Off

In Attendance

Andy Lewis	State Farm Insurance
Stacie Darnell	Kentucky National
Henry Goins	Kentucky Farm Bureau
Kim Burnell	Travelers Insurance
Val Thompson	State Farm Insurance
Chris Hill	Kentucky FAIR Plan – Alliance Claims & Customer Service
Russ Thornton	Kentucky FAIR Plan – Claims & Underwriting Alliance Manager
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Alliance Manager
Patrick Terry	Kentucky FAIR Plan – Alliance Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager
Melissa Chlon	Kentucky FAIR Plan - Assistant Director & Plan Manager

Not in Attendance

Dan Pendleton	Kentucky Farm Bureau

(1) Welcome and Introductions / Call to Order:

Ms. Lux called the meeting to order at 10:00 AM on July 13, 2022. Introductions were made, and attendees confirmed.

(2) Anti-Trust Preamble:

Mr. Terry read the Anti-Trust Preamble.

(3) Review of Resource Materials & Training

Resources including a quick reference guide were provided to the auditors in advance of the meeting. All attendees were directed to the training PowerPoint, led by Mr. Thornton. This PowerPoint presentation provided training on the *Finys* computer system that would be used during the audit.

(4) File Reviews:

The audit was conducted virtually over the course of one week. 80 claim files were reviewed from a list of 287 closed claims. 20 Illinois and Wisconsin claims (reported 1/1/22 through 6/30/22) were audited. 60 Kentucky claims (reported 9/1/21 through 6/30/22) were audited.

Wrap-Up

In Attendance

Andy Lewis	State Farm Insurance
Stacie Darnell	Kentucky National
Dan Pendleton	Kentucky Farm Bureau
Kim Burnell	Travelers Insurance
Val Thompson	State Farm Insurance
Chris Hill	Kentucky FAIR Plan – Alliance Claims & Customer Service
Russ Thornton	Kentucky FAIR Plan – Claims & Underwriting Alliance Manager
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Alliance Manager
Patrick Terry	Kentucky FAIR Plan – Alliance Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager
Melissa Chlon	Kentucky FAIR Plan - Assistant Director & Plan Manager

Not in Attendance

Henry Goins	Kentucky Farm Bureau

Ms. Lux called the meeting to order at 11:00 AM on July 21, 2022, and reminded attendees that the Committee was still bound by the Anti-Trust Preamble.

(5) Auditor Feedback and Trends:

A general conversation was held to discuss observations and trends of the FAIR Plan Alliance staff's claims handling. Observations included:

- Files were well documented
- Documents and relevant items were easily locatable within the system
- Assignments and communications were timely
- Letters were appropriate
- Estimates were well written
- Overall file handling was excellent

(6) Assignment of Executive Summary:

The Executive Summary for Kentucky was assigned to Stacie Darnell to be completed and returned via email to Ms. Lux by July 27, 2022. The Executive Summary for Illinois & Wisconsin was assigned to Val Thompson to be completed and returned via email to Ms. Lux by July 27, 2022.

(7) Other Business:

There were no other business items discussed.

Respectfully Submitted,

Erin Lux

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

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

Claims Audit Executive Summary

July 2022

Submitted by:

Stacie Darnell, Kentucky National

Andy Lewis, State Farm

Dan Pendleton, Kentucky Farm Bureau

Henry Goins, Kentucky Farm Bureau

The 2022 Kentucky FAIR Plan Claims Audit was conducted between July 13 and July 21, 2022. 175 Kentucky files were provided and 60 were randomly selected for review. Each of the four claims auditors was provided with an individual workbook to complete. The completed workbooks were submitted electronically to the FAIR Plan to compile.

SAMPLE:

Number of files reviewed: 60

Number of files presented for review: 175

Date range of files presented for review: Reported to KFP between 9-1-2021 and 6-30-2022

RESULTS:

Section	Acceptable	Not Acceptable	Comments
Timely Assignment to IA	☒	☐	Very prompt assignments
Contact / Communication	☒	☐	Good
Coverage Review	☒	☐	Reviewed up front
Investigation	☒	☐	
Documentation	☒	☐	excellent
Kentucky Claims Handling Standards	☒	☐	Excellent
Loss Payment	☒	☐	
Subrogation / Salvage	☒	☐	
Overall File Quality	☒	☐	Great

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: 98.82 %

Observations from this audit:

- Files were well documented
- Documents and relevant items were easily locatable within the system
- Assignments and communications were timely
- Letters were appropriate
- Estimates were well written
- Overall file handling was excellent

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	**Claims are being handled appropriately, and in accordance with KRS 304.12-230.**

Stacie Darnell _____ July 25, 2022
COMMITTEE MEMBER DATE

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

Underwriting Audit Meeting Minutes
August 16 and August 31, 2022

The 2022 Underwriting Audit was held virtually beginning on August 16, 2022 and ending on August 31, 2022.

Attendance, August 16, 2021:

Oliver Casey	CNA
Dwayne Taylor	State Farm Insurance
Andy Heim	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Manager
Russ Thornton	Kentucky FAIR Plan – Claims Manager
Patrick Terry	Kentucky FAIR Plan – Alliance Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager
Melissa Chlon	Kentucky FAIR Plan – Plan Manager

(1) Welcome and Introductions / Call to Order:

Ms. Lux called the meeting to order at 11:00 AM. Introductions were made, and attendees confirmed.

(2) Anti-Trust Preamble:

Ms. Lux shared the Anti-Trust Preamble, advising the Committee that we are bound to it.

(3) Review of Resource Materials:

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

(4) Finys Training Refresher:

Mr. Shubert led the Committee through a brief training of *Finys,* the computer system used during the audit.

(5) Overview of Checklist:

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 11:30 AM with instructions to audit 20 policies over the next several days and provide their results, electronically to Ms. Lux by 8 AM Monday August 29, 2022.

Attendance, August 31, 2022:

Oliver Casey	CNA
Dwayne Taylor	State Farm Insurance
Andy Heim	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting & Claims Manager
Russ Thornton	Kentucky FAIR Plan – Claims Manager
Patrick Terry	Kentucky FAIR Plan – Alliance Manager
Erin Lux	Kentucky FAIR Plan - Assistant Plans Manager
Melissa Chlon	Kentucky FAIR Plan – Plan Manager

(1) Welcome and Introductions / Call to Order:

Ms. Lux called the meeting to order at 11 AM. Attendees were 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 were received, and the results compiled. Ms. Lux thanked the group for their efforts in completing 20 files each this year. She shared the summary of results with the group. Conversation was held and feedback was shared by the auditors.

- System was easy to navigate
- Very well documented files
- Easy to follow underwriting thought process
- Agreement on underwriting decisions
- Consider standardized note for new business

(4) Assignment of Executive Summary Duties:

The committee designated that Andy Heim of Kentucky Farm Bureau, would complete the Executive Summary and forward to Ms. Lux by September 9, 2022.

(5) Other Business:

No other business was discussed.

(6) Adjournment:

The committee was reminded of their duty and authority as outlined in the Articles of Association, Article VI, Section 4(b). The meeting was adjourned at approximately 11:55 AM.

Respectfully Submitted,

Erin Lux

Erin Lux
Assistant Plans Manager
Kentucky FAIR Plan Reinsurance Association

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

2022

UNDERWRITING AUDIT

August 16 & 31, 2022

Submitted by the Underwriting Committee:

Dwayne Taylor, State Farm Insurance

Andy Heim, Kentucky Farm Bureau

Oliver Casey, CNA

Executive Summary:

The 2022 Underwriting Audit was conducted virtually between August 16 and August 31, 2022. Following the reading of the Anti-Trust Preamble, Steve Shubert led the group through a brief review of the computer system (Finys). Each auditor was provided with training material which included Kentucky FAIR Plan Manuals, 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 2022 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 60 files were selected at random from 520 possible underwriting files. Files reviewed included commercial, homeowner, dwelling fire, and farm fire policies. The list represents policies written between August 1, 2021, and July 31, 2022. The list was compiled from the Finys system and provided to the auditors via the Policy Register 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 August 1, 2021, and July 31, 2022.

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 No	Applications are reviewed and addressed within Plan standards and are completed within Article VI.2. (c), ("Deemer provision") of the Articles of Association.
Yes No	Policies are issued with proper limits as prescribed in Article VI. 3. (b) of the Articles of Association.
Yes No	Correspondence is in accordance with guidelines outlined in the Articles of Association and/or within the scope of generally recognized best business practices.
Yes No	Action items other than applications are responded to within Plan standards and/or within generally recognized best business responsiveness.
Yes No	Policies are being issued and serviced appropriately, and with supporting documentation.
Yes No	The Kentucky FAIR Plan is being managed in an effective manner.
Yes No	The Underwriting staff is effectively communicating with producers to service business placed in accordance with the Articles of Association.
Yes No	**Kentucky FAIR Plan manual rules and guidelines are being followed.**

Overall file adequacy: 99.21% (Adequacy = # yes (375) / # of yes + # of no (378))

Audit Observations and Recommendations:

- System was easy to navigate
- Very well documented files
- Easy to follow the underwriting thought process
- Agreement on underwriting decisions
- Consider a standard file entry for each new policy, that documents the following:
    - Last Resort: why the risk is applying with the FAIR Plan
    - Valuation: how the coverage limit is supported
    - Condition: applicable condition charges and decision on necessity of inspection

Submitted by Auditor & Underwriting Committee Member:

Auditor

9/6/22

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 morefires, 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
REINSURANCE AND EQUITY COMMITTEE MEETING

Pursuant to notice, a meeting of the Reinsurance and Equity Committee was held at 10:00 AM on September 14, 2022 via teleconference.

Present:

Kristen Mellinger	Kentucky Farm Bureau Insurance Company
Keith Howard	Hanover Insurance Company
Todd Feltman	State Farm Insurance Company
Mark Hillis	Kentucky FAIR Plan – Executive Director
Melissa Chlon	Kentucky FAIR Plan – Assistant Director
Erin Lux	Kentucky FAIR Plan – Assistant Plans Manager
Tina Faleide	Kentucky FAIR Plan – Accounting Manager

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 15, 2021 Committee meeting were included, and had been approved by the Governing Committee during its fall meeting.

4. Reinsurance Renewal:
   Mr. Hillis stated that quotes and modeling results have been obtained from Guy Carpenter for the 2022 to 2023 term, which will be a simple one-year term. 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 seeks quotes for placement with carriers rated A, or better, by AM Best. The 2022-2023 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.

   The reinsurance market has continued to harden over the past few months. As such, the Plan has seen Sirius Re step out of the market (they had initially quoted a 3.5% ROL with a $140,000 minimum deposit). Amlin Re has been reducing their CAT programs and has not quoted or responded to the firm order terms submitted to market. Axis Re which held 30% of the expiring line has exited the property space as well. As of the morning of this meeting, the markets, led by Ascot Syndicate, had only accepted 50% of the risk submitted. Representatives at Guy Carpenter

were continuing to work to place the remaining 50% and had interest from Arch Re, Berkley, AmFam and some others, however initial indications are that they would require a 4% ROL.

Mr. Hillis noted that there were still 16 days left to place the cover and seek interest, however he believed that the 3.25% ROL was the absolute best the Plan could secure, and based upon the lack of interest, believed that the remaining 50% placement would be at 3.5% to 4%.

Mr. Hillis noted that the worst-case scenario would be that they could not place the last 50% and if that were to be the case, the Plan could essentially self-insure with placement of just 50% of the program.

Mr. Hillis sought agreement to place as outlined above, with the worst-case scenario placing just 50% of the program.

Mr. Hillis noted that supporting documents had shown the largest expected earthquake impact with $7M TIV (total insured value) and noted that he believed the current $5M XS of $2M cover does much more than protect the members equity if and only if the Plans had an earthquake event with fire following and lost an entire area like that shown (25-mile radius) with complete and total losses of all properties. And that simply tends not to be the case with earthquake events.

Discussion took place around the Plan's declining Written Premium and book of business, confirming that the prior decision of reducing reinsurance to $5M XS $2M was appropriate.

Mr. Feltman made a motion to approve the recommendation to use Guy Carpenter in efforts to secure coverage of $5M XS of $2M at a rate of up to 4%, noting that we may only place 50% of the program. Ms. Mellinger seconded, and the motion carried.

5. <u>Review of Member Equity Policy:</u>
Mr. Hillis advised that the Plan's Member Equity position at the end of 2021 was $17,381,635 and noted that written premiums at the end of 2021 were $3,129,881. Mr. Hillis reminded the Committee that the Plan had disbursed $5M at the end of 2019 and into 2020 back to its members. He noted that equity had essentially remained the same as it was this time last year based upon the underperforming equities markets driving the Plans financial investments. He reminded the committee that Kentucky is one of three remaining states which require the Commissioner's approval to disburse funds. And that this requirement was outlined in the Plan's Articles of Association and was not defined by statute. Mr. Hillis advised that the Plan needed to file updates to the Articles of Association to be able to continue to move forward with the FAIR Plan Cost Sharing Alliance and suggested that he approach Commissioner Clark about removing the current language related to securing approval to disburse in the future.

It was noted by members of this Committee that the current markets, economic trends, weather patterns and general market uncertainty, would support not pursuing a Member Equity disbursement at the current time, but rather use this time to make the necessary changes to the

Plan's Articles of Association. Mr. Hillis suggested communicating with the Department of Insurance and requesting an in-person meeting with both Commissioner Clark and Deputy Commissioner Boggs to secure their support in the above-mentioned changes to the Articles. Ms. Mellinger commented that she fully supports the recommended changes to the Articles. Mr. Feltman agreed that being conservative with Member Equity funds, given the current market, is appropriate. Mr. Howard further noted his approval to this recommended plan.

6. Other Business:
   Mr. Hillis advised that the next Governing Committee meeting is scheduled for October 27, 2022.

7. Adjournment:
   There being no further business, Mr. Feltman motioned, and Mr. Howard seconded to adjourn the meeting. The motion carried.

Respectfully submitted,

Mark Hillis
Executive Director

FAIR PLAN REINSURANCE ASSOCIATION
FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 4:00PM on September 14, 2022.

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
Erin Lux	Kentucky FAIR Plan
Tina Faleide, CPA	Kentucky FAIR Plan
Chuck McCurdy	ARGI Financial Group
Ryan Burch	ARGI Financial Group

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. **Documentation of Minutes:**
   Mr. Hillis noted that documents had been provided prior to the meeting. Minutes of the prior September 16, 2021, March 9, 2022, and March 16, 2022 Investment Committee Meetings had been approved by the full Governing Committee.

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 and ICS accounts reflected a total of $1,389,217 as of June 30, 2022.

   Mr. Hillis noted that the Kentucky FAIR Plan has continued to provide services to other FAIR Plans via a FAIR Plan Cost Sharing Alliance and that they were working with DMLO as well as Plan counsel to formalize the Alliance with the focus on creating an LLC effective 1/1/2024. He noted that those states currently in the Alliance which Kentucky is providing services to included Missouri, Illinois, Indiana, Wisconsin, and most recently, Minnesota. The mission of the Alliance is to efficiently and effectively run different aspects of Plans to save the industry dollars. Currently Kentucky is assisting with underwriting, claims, accounting, IT, and print services. Kentucky is reimbursed for our costs, which support efficiencies in other FAIR Plans, and allow us to offset expenses.

   Mr. Hillis noted that after the reports of the Investment Managers, he would be reviewing proposed changes to the Investment Concepts and Funds Management Policy.

He further noted that each member of the committee had been provided with a copy of a letter from the Plan's Counsel, Alan Pauw, after Mr. Hillis had asked him to review notices and actions of Merrill Lynch related to Merrill Lynch's decision to cease services to the FAIR Plan. Mr. Hillis noted that Mr. Pauw concluded that there were no issues related to the handling of Plan investments by Merrill Lynch. Ms. Pierce recommended that Mr. Pauw's correspondence should be regarded as a legal opinion and addressed as such within the Historical Notes to the policy, upon which the Plan can place reliance.

5. <u>Report to the Investment Managers – Chuck McCurdy and Ryan Burch:</u>

Mr. McCurdy began a discussion of the proposed changes to the Investment Concepts and Funds Management Policy. A working draft of the proposed policy was provided to all committee members prior to the meeting. Additional modifications were made to the policy during the meeting with a revised document to be provided following the meeting. Mr. Hillis noted that he had provided each subcommittee member with draft copies as well as proposed final copies of an updated Investment Concepts and Funds Management Policy. Mr. Hillis will make changes identified during this meeting and will send it to committee members before seeking final approval by the Investment Committee. Once approved, the proposed final document will be presented to the full Governing Committee in October to adopt.

Mr. Hillis noted further changes to the policy include basic updates to the structural layout; more clearly outlined the work required by the Investment Custodian (ARGI); and allowed for the Investment Manager to act within the guidelines of the reviewed policy.

Mr. McCurdy presented a review of the investment assets including a discussion of the bond and mutual fund portfolios. Additional discussion regarding the current interest rate environment, the overall economy, concentration of larger bond lots, potential loss harvesting of unrealized losses, as well as mutual fund expense reduction by moving to ETFs took place.

The committee thanked Mr. McCurdy and Mr. Burch for the successful transfer of the portfolio and the efforts made in managing the investments to date.

6. <u>Investment Analysis:</u>

Mr. Hillis thanked Ms. Schaaf and Ms. Faleide on their partnership as they work to reconcile the transferred investments, there would be no secondary review of the current investments.

Discussion took place between Committee members and Plan staff relative to the current state of the economy.

Mr. Hillis shared that the Equity and Reinsurance Committee had met earlier in the day. The Committee members fully support not proceeding with a Member Equity distribution at this time, rather, focus on the amendments needed to the Articles of Association related to the FAIR Plan Cost Sharing Alliance.

7. <u>Other Business:</u>

Mr. Hillis advised that the next Governing Committee meeting is scheduled for 10:30 AM on October 27th, 2022.

8. <u>Adjournment:</u>

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
Investment Concept and Funds Management Policy

I. Purpose

The Governing Committee has adopted this document to serve as the investment concept and funds management policy for the management of operating and investment funds held by the Plan.

II. Scope

The Policy Statement applies to all funds held by or for the benefit of the Kentucky FAIR Plan Reinsurance Association (the "Plan"). For the purpose of this Policy, the Investment Portfolio is defined as funds in any general or special account or fund of the Plan held by or controlled by the Governing Committee of the Plan, which funds in reasonable contemplation will not be needed for the purpose intended within a reasonable time from the date of such investment.

The main investment objective of the Portfolio is to achieve long-term growth of Portfolio assets by maximizing long-term rate of return on investments and minimizing the risk of loss of Members Equity to be able to fulfill the Plans current and long-term financial obligations and Plan losses.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives and investment guidelines for Portfolio assets.
2. Establish an appropriate investment strategy for managing Portfolio assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.
5. Comply with fiduciary, prudence, due diligence and legal requirements for Portfolio assets.

~~**Purpose**~~

~~The Governing Committee has adopted this document to serve as the investment concept and funds management policy for the management of operating and investment funds held by the Plan.~~

~~**Section 1. General Cash Management and Investment Standards**~~

III. Statement of Investment Objectives and

The investment objectives of the Portfolio are as follows:

1. To invest assets of the Portfolio in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of the Plan and its

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Commented [CM1]: I would consider adding a section at the beginning of the Policy that identifies and defines the interested parties to the policy (your board, investment committee, investment manager, custodian, etc) and their roles, responsibilities and delegation of authority to act in the best interest of KY FAIR Plan. Any goals, investment objectives, risk tolerances, liquidity requirements and constraints, asset allocation guidelines, benchmarks, portfolio reporting and analysis etc., all flow from this.

Commented [CM2R1]: Some Investment Policy Statements can get pretty detailed but I am not sure that is where you want to take this. That said, I would consider inclusion of certain elements to make sure the Policy is as robust and refined as possible but maintain flexibility for growth and evolution.
Section 3 - as is - touches on my thinking but I think it can be developed further.

Commented [CM3R1]: Somewhere in here, I think that the custody requirements for insurance companies need to be hard coded (i.e., must use a depository institutional for insurance company assets - thank to IRS Notice 2016-66)

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Commented [CM4]: I would consider adding a section at the beginning of the Policy that identifies and defines the interested parties to the policy (your board, investment committee, investment manager, custodian, etc) and their roles, responsibilities and delegation of authority to act in the best interest of KY FAIR Plan. Any goals, investment objectives, risk tolerances, liquidity requirements and constraints, asset allocation guidelines, benchmarks, portfolio reporting and analysis etc., all flow from this.

Commented [CM5R4]: Some Investment Policy Statements can get pretty detailed but I am not sure that is where you want to take this. That said, I would consider inclusion of certain elements to make sure the Policy is as robust and refined as possible but maintain flexibility for growth and evolution.
Section 3 - as is - touches on my thinking but I think it can be developed further.

Commented [CM6R4]: Somewhere in here, I think that the custody requirements for insurance companies need to be hard coded (i.e., must use a depository institutional for insurance company assets - thank to IRS Notice 2016-66)

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Portfolio, and (b) assets are to be diversified as outlined in this document in order to maximize the impact of large losses from individual investments.

2. To provide for funding and anticipated withdrawals for insurance operations or claims payments.
3. To enhance the value of the Portfolio assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.

IV. Investment Authority

1. General Cash Management

The Kentucky FAIR Plan Reinsurance Association, ~~(" the Plan"),~~ is not classified as an Insurance Company. However the Plan will at all times endeavor to hold and invest funds in accordance with Kentucky Revised Statutes and Kentucky Administrative Regulations relating to the definition, classification and limitation of investments for property and casualty insurers.

The Plan's funds shall be managed and its investments shall be made as follows:

A. The Plan shall endeavor to keep approximately $1,000,000 on hand in one or more bank accounts to pay anticipated claims, loss adjustment expenses, office expenses, and other expenses of the Plan. The Plan may transfer funds in excess of that amount to the Plan's ~~Investment Custodian~~Investment manager.

B. The Plan's funds and assets ("Investment Assets")in the hands of the ~~Investment Custodian~~Investment manager shall be maintained and invested in accordance with the following standards:

1. The Investment Assets shall include cash, cash equivalents, fixed income securities and diversified equity positions subject to the right of the Plan to liquidate Investment Assets in order to pay claims and other costs of operation of the Plan on the terms stated in Section 2.

2. The Investment Assets shall include approximately $800,000 which shall be held as cash or cash equivalents..

3. Investment Assets held by the ~~Investment Custodian~~Investment manager which are not held as cash or cash equivalents pursuant to Section 1.B.2 shall be invested in one or more of the following categories of investments subject to the limitations included in Section 1.B,4 below:

   i. Municipal bonds rated AAA and AA by Moody's or Standards & Poor's or rated as "High Grade Investments" with a rating of 1 or 2 by the NAIC,

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Commented [SH7]: Do we need to expand upon any of this language to make sure we have the vehicles necessary to invest funds?

Commented [CM8R7]: I do not believe that we need to be specific with regard to the vehicles that establish exposures to cash, cash equivalents, fixed income securities and "diversified equity positions." I would posit that "diversified equity positions" can be achieved via mutual funds or ETFs, but it could also be done via separately managed equity portfolios. I would keep it vague - adding language tends to restrict flexibility. Your statutory requirements and limits should provide the necessary guardrails - those highlighted in 3 & 4.

Securities Valuation Office, ("SVO"),~~;~~ bonds shall have a maturity exposure of no greater than ten years; or,

ii. Fixed income securities issued by, or guaranteed by the full faith and credit of, the United States Government; or,

iii. AAA rated securities issued by agencies of the United States Government or by one or more of its agencies; or,

iv. Equity interests.

4. Notwithstanding any other provision of this Policy, the following guidelines also apply:
   i. General diversification limit: no more than 5% of Investment Assets shall be invested in a single position.
   ii. Equity interests: the total shall not exceed 25% of the Investment Assets.
   iii. The value of the investment in any single equity position shall not exceed 10% of the total value of the equity portfolio.

5. Interest income from the Investment Assets may~~, at the discretion of the Investment Committee,~~ be invested in diversified equity positions. Dividends and other income from such equity positions may be invested or reinvested in such equity positions.

6. The Plan recognizes that from time to time bonds and fixed income securities mature or may be called which will result in balances that may exceed the standards included herein. However, the ~~Investment Custodian~~Investment manager will at all times~~, with approval of the Executive Director,~~ endeavor to replace or reinvest securities in accordance with this policy as soon as practical.

C. Any decision to be made under this Section may be made, in accordance with the foregoing provisions, by the Plan's Executive Director or, in the absence of the Executive Director by the Plan's Manager after consultation with the Investment Committee.

D. The officers of the Plan, with the recommendation of the Investment Committee, and approval of the Governing Committee, are hereby authorized to enter into an agreement with an ~~Investment Custodian~~Investment manager or a successor ~~Investment Custodian~~Investment manager consistent with this Policy.

~~Section~~ 2. Withdrawals from the Investment Assets to Pay Claims or Plan Expenses

The Plan shall use reasonable best efforts to pay claims from funds on hand in bank accounts which

Commented [SH9]: Does this need to be expanded or clarified in any manner?

Commented [CM10R9]: I believe this language is ok as is - it is sourced in statute.

Commented [CM11R9]: Do you have the ability - and comfort level - to buy slightly longer paper? 10 Years is about as long as we would go.

Commented [SH12]: Is this language even needed so long as the investment principles are being followed? Why not remove this and allow the investment manager to do their job with interest income.

Commented [CM13R12]: So long as the investment manager does not violate statutory guidelines and specific limiting language in the IPS for equity investments, I think this can be stricken.

Commented [SH14]: This should be removed to allow the investment manager to act quickly and timely, in to reinvest in bonds. And this already notes, "endeavor to replace or reinvest securities in accordance with this policy as soon as practical." Perhaps we place a time limit on this? Perhaps not?

Commented [CM15R14]: Yes, this language appears to require ED sign-off for every investment decision. Striking this removes the ED from trading & implementation, so long as it in within the authority granted to the investment manager. Putting a time frame on reinvestment of matured bond proceeds or accumulated interest & dividends (perhaps when such available cash meets a certain minimum) is an appropriate guardrail/guideline.

have not been transferred to the ~~Investment Custodian~~Investment manager and which have therefore not become Investment Assets. There may be times, however, when Investment Assets are needed to pay claims or other costs of the Plan's operation. In those instances, the Executive Director, or in his absence, the Plan Manager, shall ~~advise and consult with~~notify the Investment Committee who shall have approval authority to transfer funds from the Investment Assets to the Plan's bank accounts to expedite the handling of claims and expenses of the Plan. The Investment Committee shall report to the Governing Committee in accordance with the provisions of this Policy.

~~Section~~ 3. Role of Governing Committee and Investment Committee

The Governing Committee has adopted this written policy and has appointed an Investment, Finance and Audit Committee ("the Investment Committee") to provide guidance for acquiring and holding investments; engaging in investment practices; specifying guidelines as to the quality, maturity and diversification of investments; and assuring that the investments and investment practices are appropriate for the mission of the Kentucky FAIR Plan Reinsurance Association as established by Subtitle 35 of KRS 304.

The Governing Committee has appointed the Investment Committee to:

- provide oversight, direction and assistance to the Executive Director for the management of operating and investment funds; and,
- assist the Governing Committee, when needed, with the selection, appointment and replacement of the ~~Investment Custodian~~Investment manager; and,
- receive and review, on no less than a quarterly basis, and more often as the Governing Committee may hereafter deem appropriate, a summary report on the Plan investments from the ~~Investment Custodian~~Investment manager in order to determine whether the Plan's investment activities have been consistent with this Policy and to consider whether this Policy should be amended in any way; and,
- meet as necessary but not less than twice annually with the ~~Investment Custodian~~Investment manager to review and make changes to the investment portfolio in accordance with this Policy; and,
- report to the Governing Committee at its annual meetings.

The Governing Committee shall adopt a resolution at its Annual meeting to acknowledge the report of the Investment Committee that investments have been made in accordance with the Investment Concept and Funds Management Policy unless it finds for any reason this Policy has not been followed and if it so the Governing Committee shall take prompt corrective action.

V. Ethics and Conflicts of Interest

Those involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which would impair their ability to make impartial investment decisions.

Commented [SH16]: Does the Investment Committee want to continue to be involved in the transfer of funds from the investment accounts to the Plans daily operational accounts "prior" to action being taken? Or, would changing this language to something like "the Executive Director, or in his absence, the Plan Manager shall have approval authority to transfer funds from the Investment Assets to the Plan's bank accounts to expedite the handling of claims and expenses of the Plan. Subsequent to action being taken by the Executive Director or Plan Manager, they shall notify the Investment Committee of same. Such actions shall be reflected in financial reports submitted to the Governing Committee."

Commented [CM17R16]: That appears sensible to me, but that is an operational issue that is driven by liquidity considerations outside of the investment manager's purview. To the extent claims require withdrawal from the investment portfolio, the ED should communicate with the investment manager to facilitate funds movement with reasonable advance notice.

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~~Section 4~~VI. Amendments

The Investment Committee shall make recommendations for Amendment of this Policy to the Governing Committee and any amendments hereto must be approved by the Governing Committee.

Historical background:

The FAIR Plan Governing Committee created in 2002 an Investment Subcommittee consisting of Ralph Dillihay, the Chair of the FAIR Plan Governing Committee, Brian Smith, its Vice Chair, Committee Member Don Renau, and Michael Plaiss of Kentucky Farm Bureau Insurance Company.

The Subcommittee interviewed various candidates for the provision of investment advisory and custodial services, discussed various strategies for making investments, and reported its recommendations at the Governing Committee meeting held on October 24, 2002. The Subcommittee recommended, among other things, retaining the advisory and custodial services of Merrill Lynch and, more particularly, the services of Steven L. Holley, CFM, an assistant Vice President in the Private Client Group in Merrill Lynch's Louisville office.

The Governing Committee approved the Subcommittee's recommendations on October 24, 2002. In accordance with the Governing Committee's October 24, 2002 action, the Plan's Secretary-Treasurer, Tom Meadows, transferred to Merrill Lynch on November 13, 2002 the Plan's bonds and certain liquid assets with a total value of $7,574,644, to be held by Merrill Lynch, as ~~Investment Custodian~~Investment Custodian for the Plan.

Merrill Lynch has maintained the investment assets it received and has invested income from those assets, consistent with the Governing Committee's October 24, 2002 action, in certain equity mutual funds.

Mr. Meadows conferred with Mr. Holley and the Plan's legal counsel, Joe Ardery, and developed a draft Investment and Funds Management Policy, which was intended to be consistent with the Governing Committee's October 2002 action. Mr. Meadows submitted the draft Policy to the members of the Investment Subcommittee for their review and comment prior to the Governing Committee's annual meeting on May 15, 2003. The Governing Committee reviewed the draft Policy and recommended several changes at its May 15, 2003 meeting.

The Governing Committee reviewed and approved the initial form of the Investment and Funds Management Policy at its meeting on October 2, 2003, with a retroactive effective date of May 15, 2003.

Kentucky FAIR Plan Reinsurance Association
Investment Concept and Funds Management Policy

Amendments:

October 13, 2005: The Governing Committee considered at its May 19, 2005 meeting various issues regarding the Plan's actual experience in carrying out the Policy since it was first adopted. It requested the Investment Subcommittee to develop several changes to the Policy. The Subcommittee recommended certain changes, which it authorized Mr. Meadows and Mr. Ardery to put in draft form for submission to the Governing Committee for its consideration and a vote at the Governing Committee's October 13, 2005 meeting. The Governing Committee approved the recommended changes.

June 7, 2007: The Investment Committee proposed amendments to the Policy for presentation to the full Governing Committee. The amendment was unanimously approved, with minor grammatical changes, by the Governing Committee at its annual meeting conducted on June 7, 2007.

November 15, 2007: The Investment Committee proposed amendments at its August 21, 2007 meeting to remove the words "Kentucky Income Tax" as the Plan does not file a Kentucky income tax return. The requirement to invest in Kentucky Municipal bonds was removed to permit investment in municipal bonds in other states and create a wider availability of bonds meeting the investment objectives. Recommended changes were presented to the Governing Committee at its November 15, 2007 meeting and unanimously approved.

October 29, 2010: Mr. Dillihay discussed the current investment holdings composed of 9.9% Cash, 17.5% Equity and 72.6% Fixed Income and recommended the Committee consider increasing the percentage held in equities to 20% over a period of time to take advantage of dollar-cost averaging. The Committee discussed the recommendation and following discussion, Ms. Williams moved, Mr. Reesor seconded and the motion was approved to change Sec I,B. 6. from 15% to 20%.

October 27, 2011: The Finance and Investment Committee recommended changes to the document and the Governing Committee approved the changes included herein.

March 8, 2017: The Finance and Investment Committee recommended changes to the allowance and language within section I,B.4 to remove the word "may" where applied and replace it with "shall". Further, within section I,B.4.ii. Equity interest increases from the guideline amount of 20% to 25%. The committee clearly indicates that the intent is to remain within the 20-23% range, however recognized the need to expand this percentage given that there has been multiple occurances where the current 20% has been approached and action has been required to be taken. The Governing Committee approved the changes on June 15, 2017.

September 15, 2022: The Finance and Investment Committee recommended changes to update the policy to a more structured format and to more clearly define the Plans Investment Policy

into an Investment Policy Statement.

Historical Notes:

November 29, 2006: With the recommendation of the Secretary-Treasurer, and approval of the Kentucky Office of Insurance, the Governing Committee approved the purchase of a building located at 10605 Shelbyville Road, Louisville, KY, 40223 to be used as office space for the Plan. Investments were liquidated ($500,000 from the bank account and $1,000,000 from Investment Assets) to satisfy the purchase price of $1,505,000. The Kentucky Automobile Insurance Plan, Kentucky Assigned Claims Plan, Kentucky Insurance Arbitration Association and Kentucky Insurance Guaranty Association also occupy the building at tenants and lease office space from the Plan. The Plan moved to the new location on March 23, 2007.

June 14, 2011: At a regular meeting of the Investment Committee, Mr. Asher recommended that the Policy be reviewed and updated as needed. The Committee agreed to review the document and to present recommendations to the Governing Committee at the next meeting.

July 20, 2022: The FAIR Plans Investment manager, Merrill Lynch, gave notice to the Plan in a letter dated January 20th 2022 that "Merrill Lynch Wealth Management will no longer be providing investment management services to public entities. As a result, your account(s) can no longer be serviced at Merrill Lynch,,," This notice indicated that the Plan had until April 20th to transition. Through the Plans counsel, an extension until July 20th 2022 was secured to find a replacement investment manager for the Plan. After an RFP process, the Plan selected ARGI Financial Group to replace Merrill Lynch. As part of this process, the Plan had its counsel, Alan Pauw, review the Merrill Lynch notice as well as the Investment Concept and Funds Management policy and provided feedback on the policy, as well as Merrill Lynch's actions to make sure that there were no apparent evidence of malfeasance, fraud or improper withdrawals from the account under Merrill Lynch custody. None were found.

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I. Purpose

The Governing Committee has adopted this document to serve as the investment concept and funds management policy for the management of operating and investment funds held by the Plan.

II. Scope

The Policy Statement applies to all funds held by or for the benefit of the Kentucky FAIR Plan Reinsurance Association (the "Plan"). For the purpose of this Policy, the Investment Portfolio is defined as funds in any general or special account or fund of the Plan held by or controlled by the Governing Committee of the Plan.

The main investment objective of the Portfolio is to achieve long-term growth of Portfolio assets by maximizing long-term rate of return on investments and minimizing the risk of loss of Members Equity to be able to fulfill the Plans current and long-term financial obligations and Plan losses.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives and investment guidelines for Portfolio assets.
2. Establish an appropriate investment strategy for managing Portfolio assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.
5. Comply with fiduciary, prudence, due diligence and legal requirements for Portfolio assets.

III. Statement of Investment Objectives

The investment objectives of the Portfolio are as follows:

1. To invest assets of the Portfolio in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of the Plan and its Portfolio, and (b) assets are to be diversified as outlined in this document in order to maximize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals for insurance operations or claims payments.
3. To enhance the value of the Portfolio assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.

IV. Investment Authority

1. General Cash Management

The Kentucky FAIR Plan Reinsurance Association, is not classified as an Insurance Company. However the Plan will at all times endeavor to hold and invest funds in accordance with Kentucky Revised Statutes and Kentucky Administrative Regulations relating to the definition, classification and limitation of investments for property and casualty insurers.

The Plan's funds shall be managed and its investments shall be made as follows:

A. The Plan shall endeavor to keep approximately $1,000,000 on hand in one or more bank accounts to pay anticipated claims, loss adjustment expenses, office expenses, and other expenses of the Plan. The Plan may transfer funds in excess of that amount to the Plan's Investment manager.

B. The Plan's funds and assets ("Investment Assets")in the hands of the Investment manager shall be maintained and invested in accordance with the following standards:

1. The Investment Assets shall include cash, cash equivalents, fixed income securities and diversified equity positions subject to the right of the Plan to liquidate Investment Assets in order to pay claims and other costs of operation of the Plan on the terms stated in Section 2.

2. The Investment Assets shall include approximately $800,000 which shall be held as cash or cash equivalents..

3. Investment Assets held by the Investment manager which are not held as cash or cash equivalents pursuant to Section 1.B.2 shall be invested in one or more of the following categories of investments subject to the limitations included in Section 1.B,4 below:

   i. Municipal bonds rated AAA and AA by Moody's or Standards & Poor's or rated as "High Grade Investments" with a rating of 1 or 2 by the NAIC, Securities Valuation Office, ("SVO"), bonds shall have a maturity exposure of no greater than ten years; or,

   ii. Fixed income securities issued by, or guaranteed by the full faith and credit of, the United States Government; or,

   iii. AAA rated securities issued by agencies of the United States Government or

by one or more of its agencies; or,

iv. Equity interests.

v. Asset Allocation shall be governed by the following table:

KY FAIR Plan IPS Asset Allocation		
	Minimum	**Maximum**
Bonds/Fixed Income	**70%**	**85%**
Equities	**10%**	**25%**
Cash	**5% or $800,000 minimum**	**20%**

vi.

4. Notwithstanding any other provision of this Policy, the following guidelines also apply:
   i. General diversification limit: no more than 5% of Investment Assets shall be invested in a single position.
   ii. Equity interests: the total shall not exceed 25% of the Investment Assets.
   iii. The value of the investment in any single equity position shall not exceed 10% of the total value of the equity portfolio.

5. Interest income from the Investment Assets maybe invested in diversified equity positions. Dividends and other income from such equity positions may be invested or reinvested in such equity positions.

6. The Plan recognizes that from time to time bonds and fixed income securities mature or may be called which will result in balances that may exceed the standards included herein. However, the Investment manager will at all timesendeavor to replace or reinvest securities in accordance with this policy as soon as practical.

C. Any decision to be made under this Section may be made, in accordance with the foregoing provisions, by the Plan's Executive Director or, in the absence of the Executive Director by the Plan's Manager after consultation with the Investment Committee.

D. The officers of the Plan, with the recommendation of the Investment Committee, and approval of the Governing Committee, are hereby authorized to enter into an agreement with an Investment manager or a successor Investment manager consistent with this Policy.

2. Withdrawals from the Investment Assets to Pay Claims or Plan Expenses

The Plan shall use reasonable best efforts to pay claims from funds on hand in bank accounts which have not been transferred to the Investment manager and which have therefore not become Investment Assets. There may be times, however, when Investment Assets are needed to pay claims or other costs of the Plan's operation. In those instances, the Executive Director, or in his absence, the Plan Manager, shall notify the Investment Committee who shall have approval authority to transfer funds from the Investment Assets to the Plan's bank accounts to expedite the handling of claims and expenses of the Plan. The Investment Committee shall report to the Governing Committee in accordance with the provisions of this Policy.

3. Role of Governing Committee and Investment Committee

The Governing Committee has adopted this written policy and has appointed an Investment, Finance and Audit Committee ("the Investment Committee") to provide guidance for acquiring and holding investments; engaging in investment practices; specifying guidelines as to the quality, maturity and diversification of investments; and assuring that the investments and investment practices are appropriate for the mission of the Kentucky FAIR Plan Reinsurance Association as established by Subtitle 35 of KRS 304.

The Governing Committee has appointed the Investment Committee to:

- provide oversight, direction and assistance to the Executive Director for the management of operating and investment funds; and,
- assist the Governing Committee, when needed, with the selection, appointment and replacement of the Investment manager; and,
- receive and review, on no less than a quarterly basis, and more often as the Governing Committee may hereafter deem appropriate, a summary report on the Plan investments from the Investment manager in order to determine whether the Plan's investment activities have been consistent with this Policy and to consider whether this Policy should be amended in any way; and,
- meet as necessary but not less than twice annually with the Investment manager to review and make changes to the investment portfolio in accordance with this Policy; and,
- report to the Governing Committee at its annual meetings.

The Governing Committee shall adopt a resolution at its Annual meeting to acknowledge the report of the Investment Committee that investments have been made in accordance with the Investment Concept and Funds Management Policy unless it finds for any reason this Policy has not been followed and if it so the Governing Committee shall take prompt corrective action.

V. Ethics and Conflicts of Interest

Those involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which would impair their ability to make impartial investment decisions.

VI. Amendments

The Investment Committee shall make recommendations for Amendment of this Policy to the Governing Committee and any amendments hereto must be approved by the Governing Committee.

Historical background:

The FAIR Plan Governing Committee created in 2002 an Investment Subcommittee consisting of Ralph Dillihay, the Chair of the FAIR Plan Governing Committee, Brian Smith, its Vice Chair, Committee Member Don Renau, and Michael Plaiss of Kentucky Farm Bureau Insurance Company.

The Subcommittee interviewed various candidates for the provision of investment advisory and custodial services, discussed various strategies for making investments, and reported its recommendations at the Governing Committee meeting held on October 24, 2002. The Subcommittee recommended, among other things, retaining the advisory and custodial services of Merrill Lynch and, more particularly, the services of Steven L. Holley, CFM, an assistant Vice President in the Private Client Group in Merrill Lynch's Louisville office.

The Governing Committee approved the Subcommittee's recommendations on October 24, 2002. In accordance with the Governing Committee's October 24, 2002 action, the Plan's Secretary-Treasurer, Tom Meadows, transferred to Merrill Lynch on November 13, 2002 the Plan's bonds and certain liquid assets with a total value of $7,574,644, to be held by Merrill Lynch, as Investment Custodian for the Plan.

Merrill Lynch has maintained the investment assets it received and has invested income from those assets, consistent with the Governing Committee's October 24, 2002 action, in certain equity mutual funds.

Mr. Meadows conferred with Mr. Holley and the Plan's legal counsel, Joe Ardery, and developed a draft Investment and Funds Management Policy, which was intended to be consistent with the Governing Committee's October 2002 action. Mr. Meadows submitted the draft Policy to the members of the Investment Subcommittee for their review and comment prior to the Governing

Committee's annual meeting on May 15, 2003. The Governing Committee reviewed the draft Policy and recommended several changes at its May 15, 2003 meeting.

The Governing Committee reviewed and approved the initial form of the Investment and Funds Management Policy at its meeting on October 2, 2003, with a retroactive effective date of May 15, 2003.

Amendments:

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KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

FAIR Plan Cost Sharing Alliance Subcommittee

Pursuant to notice, a meeting was held at 9:00 AM on October 19, 2022, via Zoom.

Present for the meeting:

Kristen Mellinger	Kentucky Farm Bureau
Rudy Schlich	Old Kentucky Insurance
Todd Feltman	State Farm Insurance
Mark Hillis	Kentucky FAIR Plan
Melissa Chlon	Kentucky FAIR Plan
Erin Lux	Kentucky FAIR Plan
Tina Faleide	Kentucky FAIR Plan

1. Call to Order:

Mr. Hillis called the meeting to order and acknowledged that all members were present.

2. Anti-Trust Preamble:

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

3. Review of the Charter:

Mr. Hillis noted that the Committee Charter for the newly appointed FAIR Plan Cost Sharing Alliance subcommittee had been shared as approved by the Governing Committee. He reminded the subcommittee that the primary goal is to assist Plan Management in their oversight and evaluation of the establishment of an entity to be named the FAIR Plan Cost Sharing Alliance. He further noted that the authority granted to this subcommittee was to review all documents of the FAIR Plan Cost Sharing Alliance, proposed structure, and financial structure and report their findings to the Governing Committee with recommendations. Mr. Hillis noted that his intent of the meeting today, was to review information to-date in order to present options and future plans to the Governing Committee.

4. Report of the Plan Manager:

4.a Meeting and Work Overview

Work completed by Plan Management includes, but is not limited to, several communications with Plan Counsel Alan Pauw and DMLO Director Sarah Antle. Following numerous calls and emails, both Mr. Pauw and Ms. Antle met in-person with Plan Management on August 17, 2022, to work towards a proposal to be presented to this subcommittee.

4.b. Structure

Mr. Hillis indicated that while there were a few options discussed, there was complete consensus and agreement that the correct structure for the FAIR Plan Cost Sharing Alliance was an LLC with the Kentucky FAIR Plan as the “parent”. The LLC would be a disregarded entity solely owned by the Kentucky FAIR Plan. There would be no separate tax status as the Alliance would flow up into the FAIR Plan for taxes, and the LLC would have its own FEIN, employees, etc. Currently, the Kentucky FAIR Plan files as a corporation, not a non-profit organization. The goal of the structure of the FAIR Plan Cost Sharing Alliance is to organize it in a manner that provides protection for the Kentucky FAIR Plan and all Plans involved. The best way to achieve this is the creation of an LLC.

4.c. KY DOI and Articles of Association Updates

Mr. Hillis noted that he has had ongoing communication with Commissioner Sharon Clark and most recently noted on August 24th that the FAIR Plan continued to look to formalize the FAIR Plan Cost Sharing Alliance and was looking to set up an LLC under the Kentucky FAIR Plan by January 1, 2024. In an effort to ensure there would be support from the Kentucky Department of Insurance, Mr. Hillis and Ms. Chlon met with Commissioner Sharon Clark on October 4, 2022, and, in advance of submitting an official amendment to the Articles, presented the proposed changes. There was unanimous support of the proposed amendment to the Articles of Association that would add clarity as to the FAIR Plan Cost Sharing Alliance, which will have its own Articles of Association.

Commissioner Clark noted during this meeting, that she is proud of the work being done by the Kentucky FAIR Plan, including the creation of the FAIR Plan Cost Sharing Alliance, specifically noting that she shared this progress with other states and the National Association of Insurance Companies. Commissioner Clark did want to ensure that Kentucky was not overlooked during this transition and Mr. Hillis shared that Kentucky is, and will remain, a priority. Further discussion took place around profit, and it was noted that the services provided by Kentucky, for the FAIR Plan Cost Sharing Alliance, offset the expenses of the Kentucky FAIR Plan and to-date have not resulted in a profit.

Commissioner Clark was supportive of the decision and agreement to allow the proposed changes to the Articles relative to the FAIR Plan Cost Sharing Alliance. The Department of Insurance requested Statement of Work and Non-Disclosure Agreement examples which Mr. Hillis has provided.

Ms. Mellinger inquired if the Amendment to the Articles will be sent to the Department next week. Mr. Hillis confirmed that the Amendment will be filed with SERFF following the approval of our full Governing Committee next week. Ms. Mellinger wanted to confirm that we are not amending the current Articles and simply adding an Amendment, which is accurate. The Amendment was drafted by our counsel Alan Pauw. This Amendment is not the Articles of the FAIR Plan Cost Sharing Alliance, but rather it is confirming Kentucky FAIR Plan's authority to create the FAIR Plan Cost Sharing Alliance, LLC.

4.d. Proposed Date

Mr. Hillis noted that the working group consisting of Tina Faleide, Erin Lux, Melissa Chlon, Sarah Antle (DMLO), Plan Counsel Alan Pauw, and himself were looking at a 1/1/2024 effective date for the new LLC if approved given all the work which was still needed. Ongoing efforts include, but are not limited to:

- Transitioning employees from the FAIR Plan to the new LLC
- Drafting the Articles for the LLC
- Revising the Articles of the Kentucky FAIR Plan

4.e. Funding

Mr. Hillis noted that if the Kentucky FAIR Plan moved forward with the new LLC, there are two options to fund the beginning of same. Both were presented by Sarah Antle (DMLO). One option would be a loan from the FAIR Plan to the FAIR Plan Cost Sharing Alliance. That would require a repayment schedule, etc. The other option would be to do what she indicated the majority of those establishing LLC's do, which is to simply fund the new organization as the sole owner via an equity injection. Mr. Hillis noted that the amount of either the loan or the initial investment should be enough for the FAIR Plan Cost Sharing Alliance to operate for its first 6 months to establish billing, etc. This would include the cost of salaries, benefits, rents, etc. While there has been no formalized calculation yet, Mr. Hillis

noted that he would expect that figure to be close to $700,000 but will provide a more calculated estimate as the enactment of the LLC approaches.

Ms. Mellinger asked about any negative implications, from a benefits perspective, in moving all current Kentucky FAIR Plan employees to the FAIR Plan Cost Sharing Alliance. Mr. Hillis explained that we've put many business partners on notice that we will move employees. This will be similar to the prior move from KAIP to KFP. The retirement component will be the most challenging, but our attorney has experience in that space, and we will work with ARGI and RMS (Retirement Management Services) to ensure a smooth transition.

Mr. Feltman asked about any research conducted relative to any increased risk from an operations perspective or cyber security perspective. Mr. Hillis shared that both Kentucky and Illinois FAIR Plans had reviewed and communicated with their respective insurance producers, and, from a liability standpoint, there is no expected need to increase our cover limit nor our liability coverage at this time. Further, Mr. Hillis explained that we have considered the potential to pool the FAIR Plan Cost Sharing Alliance members into one policy but at this time we're not seeing the need or benefit with that. Both Illinois and Kentucky have discussed the need to combine or add an "Additional insured" and that answer is also no, at this time. Our contracts currently state that the individual FAIR Plan is the decision maker and leadership approver on decisions made by the FAIR Plan Cost Sharing Alliance as the Plans have authority over the work done by the Alliance.

5. <u>Other Business:</u>

Mr. Hillis asked if there were any questions or concerns that needed to be discussed. Ms. Mellinger noted that based on our conversation today and the work being done, she is confident that Kentucky will remain a priority during this transition. Mr. Hillis noted the opportunity to help other FAIR Plans work more efficiently and create improved processes in other states. Even if agreements are terminated, Kentucky is working in a manner that will leave other FAIR Plans in a better place than they were before joining the FAIR Plan Cost Sharing Alliance.

Mr. Feltman also acknowledged and appreciates the thorough work done on this project to-date and notes that he is proud of Kentucky for leading this necessary movement.

Mr. Hillis reminded this Committee that the Kentucky Guarantee Association will be put on notice today, that their lease agreement will end on December 31, 2023, and no offer will be extended beyond that date. The Kentucky FAIR Plan will assume full occupancy of the current office space on January 1, 2024.

6. <u>Adjournment:</u>

There being no further business, Mr. Feltman made a motion to adjourn which was seconded by Ms. Mellinger. The motion carried and the meeting was adjourned.

Respectfully submitted,

Stephen Mark Hillis

Executive Director

Kentucky FAIR Plan

Budget

	2022 Budget	2023 Budget
Accounting Fees	18,753	20,473
Actuarial Review	9,400	16,016
Board Meetings	500	700
Bldg-Repairs & Maint.	24,444	24,932
Building-Utilities	8,389	9,601
Building-Taxes	8,992	9,541
Computer	68,708	60,914
Dues & Subscriptions	2,270	2,549
Education	4,120	3,940
Empl. Portion-401-K	23,225	28,338
Health Insurance	135,849	182,975
Human Resources	15,075	13,825
Inspections	49,656	43,087
P & C Insurance	30,421	49,350
Legal/Professional	52,386	53,045
Meals & Ent.	2,000	2,000
Membership Fees	40,867	40,979
Miscellaneous	1,200	1,200
Office Equipment	1,500	1,500
Office Supplies	5,000	5,000
Payroll Fees	1,450	1,715
Payroll Tax	77,417	94,460
Pensions	102,191	124,688
Postage	9,115	9,413
Printing	1,699	1,699
Processing	155,491	146,848
Repairs & Maint.-Off. Eq.	1,826	1,789
System Enhancements	40,000	25,000
Telephone	17,130	24,360
Travel	11,000	11,000
Wages	774,173	944,604
FAIR Plan Alliance	-65,000	-155,000
Totals	$1,629,245	$1,800,542

DRAFT 9/15/22

AMENDMENT NO. 1 TO THE ARTICLES OF ASSOCIATION OF KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

THIS AMENDMENT No. 1 (the "Amendment") to the Articles of Association of Kentucky FAIR Plan Reinsurance Association, last Amended and Restated effective January 1, 2021 (the "Articles"), modifies the Articles pursuant to the right reserved in Article XII, and in the interests of Kentucky FAIR Plan Reinsurance Association (the "Association"), the Governing Committee adopts the Amendment, as follows:

A.

Article XIV, FAIR Plan Alliance, shall be added and read as follows:

ARTICLE XIV

FAIR Plan Alliance

1. FAIR Plan Alliance. The Governing Committee is authorized to design, adopt and implement Cost Sharing Alliance Services for FAIR Plans of sister states. Such services shall be referred to as "Cost Sharing Alliance Services" (or simply, "Alliance Services") and shall include, but not limited to, claims processing, underwriting, and accounting for FAIR Plans. Alliance Services shall attempt to reduce operating expenses by combining services of FAIR Plans where size and activity facilitate improved efficiencies by adopting centralized operations. Governing Committee may at any time discontinue Alliance Services.

2. Organization. The Governing Committee may establish Alliance Services through the Association or by set up of separate legal entity. Any such entity shall have authority to contract with sister states for provision of Alliance Services.

3. Management. The Governing Committee may designate or appoint an executive director for Alliance Services who shall have general administrative and management responsibility and authority for Alliance Services.

4. Funding. The Governing Committee is authorized to provide funding, initially and from time to time, for Alliance Services in such manner as it shall deem appropriate, including, but not limited to, loans and capital contributions. No such funding shall adversely affect the surplus or cash reserves of the Association.

5. No Policy Issuance. Alliance Services shall not include, and the Governing Committee shall have no authority to, issue of insurance policies for or on behalf of any FAIR Plan of another state. Any Alliance Services entity, and its employees, and agents, which perform Alliance Services shall not have binding authority on behalf of the Association.

B.

The effective date of the Amendment to the Articles shall be _____, 20__.

C.

Except as specifically amended above, the Articles shall remain unchanged and as amended herein, shall continue in full force and effect.

IN WITNESS WHEREOF, the Governing Committee of Kentucky FAIR Plan Reinsurance Association has caused this Amendment to the Articles to be adopted by its duly authorized representative this ___ day of _____, 20___.

KENTUCKY FAIR PLAN REINSURANCE
ASSOCIATION, GOVERNING COMMITTEE

By:_____

Title: _____

APPROVED BY:

KENTUCKY DEPARTMENT OF INSURANCE

_____

Title: _____

_____
Date

23889.7

Kentucky FAIR Plan Committee Assignments – 2022/2023

Committee	Member	Company
Executive Committee	Rudy Schlich	Old Kentucky Insurance
	John Miner	Kentucky National Insurance Company
	Mark Hillis -Executive Director	Kentucky FAIR Plan
Investment Committee	Lisa Pierce	Allstate Insurance Co.
	Carrie Schaaf	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Chuck McCurdy	ARGI Financial Group
	Mark Hillis - Executive Director	Kentucky FAIR Plan
Members Equity and Reinsurance Committee	Kristen Mellinger	Kentucky Farm Bureau
	Keith Howard	Hanover Insurance
	Todd Feltman	State Farm
	Mark Hillis – Executive Director	Kentucky FAIR Plan
Audit Committee	Carrie Schaaf	Kentucky Farm Bureau
	Todd Feltman	State Farm
	John Miner	Kentucky National Insurance Company
	Tina Faleide	Kentucky FAIR Plan
Products and Forms Committee	Kristen Mellinger	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Jay Kepperling	Nationwide
	Erin Lux	Kentucky FAIR Plan
Underwriting Committee	Dwayne Taylor	State Farm
	Oliver Casey	C.N.A.
	Andy Heim	Kentucky Farm Bureau
	Erin Lux	Kentucky FAIR Plan
Claims Committee	Henry Goins	Kentucky Farm Bureau
	Dan Pendleton	Kentucky Farm Bureau
	Andy Lewis	State Farm
	Stacie Darnell	Kentucky National
	Russ Thornton	Kentucky FAIR Plan
KAIP Compensation and Benefits	Lisa Pierce	Allstate Insurance Co.

KENTUCKY FAIR PLAN

PIPSO SEMI-ANNUAL REPORT

OF PROPERTY INSURANCE PLAN COVERAGE

Line #	Description	YEAR-TO-DATE DATA DATES REPORTED 01/01/22 to 09/30/22
	NEW BUSINESS	
1	Number of applications accepted	510
2	Number of inspections completed	510
3	Number of new policies issued	510
	RENEWAL BUSINESS	
4	Number of requests for renewals	3,524
5	Number of renewals inspected	1,256
6	Number of renewal policies issued	3,524
	RESULTS BY CLASS OF BUSINESS	
	Number of policies issued (new & renewal)	
7	Habitational	3,874
8	Commercial	160
	Total Premium Written (000)	
9	Habitational	1,930
10	Commercial	168
	Total exposure (000)	
11	Habitational	229,570
12	Commercial	11,819
	LOSSES BY CLASS OF BUSINESS	
	Number of Losses Reported	
13	Habitational	183
14	Commercial	4
	Number of Losses Paid	
15	Habitational	127
16	Commercial	3
	Total Paid Losses (000)	
17	Habitational	1,489
18	Commercial	26
	Total Outstanding Losses - Case Basis (000)	
19	Habitational	14
20	Commercial	0