

Kentucky FAIR Plan Reinsurance Association

October 12, 2023

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 Wednesday October 25, 2023, 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. 2024 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

Anti-trust Preamble

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

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
GOVERNING COMMITTEE**

Governing Committee Member	Affiliation
<p>Rudy Schlich (Chair) Old Kentucky Insurance 915 Lily Creek Road Louisville, KY 40243 (502) 451-8800 Rudy.Schlich@oldkyins.com</p>	Agent (d)
<p>Todd Feltman (Vice-Chair) State Farm Insurance Co. 1 State Farm Plaza, D-1 Bloomington, IL 61710 (309) 763-5792 todd.feltman.c0hu@statefarm.com</p>	Non Affiliated (b)
<p>David Combs Kentucky National Insurance 2416 Sir Barton Way Lexington, KY 40509 (859) 519-1054 dacombs@kynat.com</p>	Domiciled (a)
<p>Lisa Pierce Allstate Insurance Company 555 Marriott Drive, Suite 700 Nashville, TN 37214 (615) 902-7053 Lisa.pierce@allstate.com</p>	APCIA –Affiliated (c)
<p>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</p>	Domiciled (a)
<p>Dawn Whalen Travelers Insurance 303 N. Hurstbourne Parkway Louisville, KY 40222 (502) 468-2903 dmwhalen@travelers.com</p>	APCIA –Affiliated (c)
<p>Jay Kepperling Nationwide Mutual Insurance Company 1 Nationwide Plaza Columbus, OH 43215 502-645-9562 jay1@nationwide.com</p>	NAMIC (c)

Kentucky Department of Insurance Representative and Kentucky FAIR Plan Staff

<p>Shawn D. Boggs, APIR Deputy Commissioner</p> <p>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</p>	
<p>Stephen "Mark" 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</p>	
<p>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</p>	

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION GOVERNING COMMITTEE MEETING

The Annual and Governing Committees meetings of the Kentucky FAIR Plan were held at 10:30 AM on June 7, 2023.

Those present:

Governing Committee:

Rudy Schlich	(Chair)	Old Kentucky Insurance
Kristen Mellinger		Kentucky Farm Bureau Ins. Co.
Eric Hammons		State Farm Insurance Co.
Jay Kepperling		Nationwide Mutual Insurance Co.
David Combs		Kentucky National Insurance

Kentucky Department of Insurance:

Shawn Boggs	Deputy Commissioner, Kentucky DOI
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Other:

Emily Whatley, CPA	Deming, Malone, Livesay & Ostroff
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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. Feltman, representing State Farm Insurance, appointed Mr. Hammons as his proxy. Ms. Pierce, representing Allstate, appointed Mr. Kepperling as her proxy. There is an open seat previously held by Hanover.

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 27, 2022, Governing Committee Meeting as well as the following Committee Meetings held April 12, 2023: Finance and Investment, Product and Forms, Audit Committee, and Alliance Sub-Committee. Minutes for all meetings listed above were distributed with the meeting documents.

Mr. Kepperling moved, and Ms. Mellinger seconded to approve the minutes of the committees. All voted in favor and the motion passed.

4. Election of Members of Governing Committee:

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Mr. Hillis indicated that the 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. David Combs of Kentucky National Insurance.

A motion was made by Ms. Mellinger to approve Mr. Combs and seat the Committee for the coming year. The motion was seconded by Mr. Kepperling. All members approved, and the motion carried.

5. Election of Officers:

Ms. Mellinger nominated Mr. Schlich as Chair, Mr. Feltman 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. Kepperling moved to accept the nominations, Mr. Combs seconded, all others approved, and the motion carried.

6. Auditors Report and Financial Statement:

The 2022 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. Whatley discussed the Financial Highlight report and allowed an opportunity for questions, of which there were none.

Ms. Whatley explained that market performance had an impact on the 2022 investment results, as seen across all markets. Ms. Whatley noted that financial actions around the Plan's change of investment management firm was proper. A brief discussion was held about the firm chosen (Cerity Partners, formerly known as ARG1) and Mr. Schlich noted their outstanding reputation. Ms. Whatley stated 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. Whatley for her service to the Kentucky Plans. Mr. Hillis commended her for expanding DMLO's auditing service to other residual market mechanisms, saving the industry money across many states.

Mr. Hillis noted that the Plan does not file a yellow book but rather provides financial information to the Department of Insurance.

7. Executive Director's Report:

Ms. Chlon presented a status report on 2022 key metrics. She compared written premium, number of new business applications and the number of policies in force against those metrics in 2021 and all had decreased. The Plan had 4,284 policies in force at year end.

The operating expense ratio has increased, mainly due to a reduction in written premium. The loss ratio and number of claims reported remained stable from 2021 to 2022, however the loss adjustment expense did increase from 24% to 27%. The Plan also had an increase in the combined ratio for 2022, ending at 127%. Finally, the Members Equity position at year end 2022

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was \$16.2M. 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. The Plan is working on a Member Equity system with Finys, that will benefit our Kentucky Plans as well as other Plans outside of Kentucky. Ms. Chlon noted that a similar system, to be used for assessments and disbursements, is currently live for the Assigned Claims Plan.

Budget:

Ms. Chlon noted that the Plan ended 2022 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 2022 was \$133,559 compared to \$65,000 in 2021. In 2022, Kentucky billed approximately \$169K and offset expenses (legal, IT, supplies, etc.) directly from the billed amount resulting in the above noted income.

Wages were the largest factor in the 2022 budget results. It was noted that the Plan operates with staff that is cross-trained and can be allocated as needed across the various Plans via the Cost Sharing Agreement.

First Quarter 2023 results:

Ms. Lux reported key metrics for the first quarter 2023, noting that written premium was down approximately 6% and new applications are down 17% when compared to first quarter 2022. The Plan ended the quarter with 4,122 policies in force which has also declined from last year. Ms. Lux reminded the Committee of the depopulation efforts in place designed to encourage insureds to re-enter the standard market.

Claims reported for the first quarter were significantly higher than in previous years, based on the March 3rd wind event. Mr. Hammons asked if the Plan had seen an increase in water claims. Ms. Lux explained that, with nearly 80% of PIF written on a DP-1 form, which does not typically cover water perils, the Plan has not seen an increase. Mr. Hillis further noted that many broad-form applications are received however, Plan staff converts them to a more basic form, aligned with the Mission of the Plan. Plan staff has not noticed trends of Kentuckians being non-renewed due to claims following multiple weather events.

Reinsurance:

Mr. Hillis discussed the Plan's reinsurance treaty limits and shared that Plan staff are starting to gather the renewal data for next year's contract placement. 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. Hillis noted that we had no opportunity to reduce the \$2M retention amount. Mr. Combs noted that the larger states have seen 20%-30% premium increases. Retention and rate-online are both increasing across the market. Mr. Hillis discussed our 2019 disbursement relative

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to our member equity amounts, specifically noting a discussion will take place this fall but will likely not result in a recommendation of disbursing at this time.

Mr. Hillis noted that the Plan is working with members of the FAIR Plan Alliance to discuss possible reinsurance pooling options on a combined book with a goal of cost-sharing the premium expense. The needs of the Alliance member Plans and the reinsurance market trends will dictate the viability of this option.

8. Other Business:

FAIR Plan Cost Sharing Alliance:

Mr. Hillis shared the history of the FAIR Plan Alliance and noted the current participation of other FAIR Plans in this Alliance. Kentucky assists or provides complete handling of underwriting, accounting, print services, IT/computer projects, human resources, and claims support for some, all or part of the Illinois, Wisconsin, Missouri, Indiana, Minnesota, and Washington FAIR Plans. The FAIR Plan Cost Sharing Alliance has allowed participating members to reduce their respective staff, and, or simply improve operational efficiency.

Mr. Hillis noted that he has been in contact with, and shared information to the Colorado Insurance Department and insurance industry, as they are considering the creation of a FAIR Plan.

Mr. Hillis noted the creation of claims manuals by Kentucky Plan staff, for Plans where manuals did not previously exist. Plan staff is also introducing regional, reliable claims vendors to the members of the Alliance that are open to it.

Mr. Hammons noted that the support provided by the FAIR Plan Alliance is very much appreciated, not just from the Illinois FAIR Plan, but also from the industry relative to cost savings.

Recent progress made with the Alliance includes 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 ensure that the Kentucky FAIR Plan is protected. All Kentucky FAIR Plan employees will transfer to the newly formed LLC, effective January 1, 2024.

Mr. Hillis noted the operational efficiencies the Alliance would foster, by supporting FAIR Plans of similar size, as well as expense savings for the insurance industry. 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. The Alliance will continue to prioritize leaving Plans better off than they were when the relationship was formed with them, if and when they separate from the Alliance.

Ms. Mellinger asked about billing practices and a discussion took place as to the time component for manually tracking hours worked by Plan staff. The Alliance is looking into the possibility of static pricing based on historic services provided.

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Ms. Chlon noted that the FAIR Plan Alliance continues to see the need for IT and system support that could be utilized and allocated amongst the Alliance.

Ms. Lux shared claims volume for Q1 2023 relative to the Alliance claims participants, noting that Kentucky FAIR Plan made up 58% of incoming claims.

Team Engagement Opportunities

Ms. Lux shared that over the past year, the Plan found creative ways to support local communities. Plan staff purchased items over the holidays as well as contributing to a west-end non-profit that encourages at-risk children to grow their skills through sports. Ms. Lux solicited ideas from the group for community service ideas for the future.

Mr. Hillis noted the support provided by the Plan, in partnership with the industry across many states, following the tornadoes in late 2021. Further he thanked the Committee for supporting the Plan initiatives to give back.

Ms. Chlon asked the Committee to touch base with their teams to review cancellation notices and non-renewals from their respective companies to ensure the correct address is used for the FAIR Plan.

She also stated that 401k eligibility and vesting for employees will be discussed in the fall meeting and a mail vote may be forthcoming. The Plans have received feedback from the industry that the current 401k eligibility and vesting timeframes are dated and may need to be shortened.

Ms. Chlon opened the discussion around installment fees, noting that for almost 20 years it has been \$4 per installment for policyholders that select a payment plan. She further noted that, in addition to credit card processing fees, the cost of many services has increased, to include inspections, integrations, postage, etc. Ms. Chlon asked for the opinion of this Committee around increasing the installment fee to offset the rising costs related to policy services.

Mr. Hillis noted that we cannot pass the fee on to the consumer in Kentucky. VISA generally controls the amount and smaller organizations can pay very high fees per transaction. Ms. Chlon has been working with the vendor in an attempt to secure a reasonable rate, considering a possible group rate through the FAIR Plan Alliance.

Ms. Mellinger suggested that the Underwriting Committee review and make a recommendation relating to the possible increase in fees. Mr. Schlich agreed that the recommendation should come from the Underwriting Committee. Mr. Hammons suggested that we compare the cost of employee time of processing other options, which are likely much more costly than even increasing the installment fee to \$6. Ms. Mellinger suggested the Plans frame the review with the clientele and their ability to absorb the increase. The Underwriting Committee will review this topic and bring a recommendation to the full Governing Committee this fall.

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

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. She asked for any 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.

Mr. Boggs asked if we were satisfied with the timeliness of returning requests for board approval and Mr. Hillis ensured that the Plan was very satisfied with the responsiveness of the Department.

Mr. Boggs shared that the Department has been busy with 261 newly admitted companies over the last three years. This is a positive thing and speaks to the strong market in Kentucky.

Next meeting:

Mr. Schlich noted that the fall meeting will be in-person. The next meeting date is set for October 25, 2023, at 10:30 AM.

9. Adjournment:

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

Respectfully Submitted,



Melissa Chlon
Assistant Director / Plan Manager

FAIR PLAN ALLIANCE

2023 Claims Audit Committee Meeting Minutes

The 2023 Claims Audit was conducted virtually with meetings on August 14, and 24, 2023.

Kick-Off

In Attendance

Andy Lewis	State Farm Insurance
Stacie Darnell	Kentucky National
Henry Goins	Kentucky Farm Bureau
Dan Pendleton	Kentucky Farm Bureau
Val Thompson	State Farm Insurance
Russ Thornton	Kentucky FAIR Plan – Claims & Underwriting 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
Kimberly Burnell	Travelers Insurance (Attended individual session August 2, 2023)

(1) Welcome and Introductions / Call to Order:

Ms. Lux called the meeting to order at 11:00 AM on August 14, 2023. Introductions were made, and attendees confirmed.

(2) Anti-Trust Preamble:

Ms. Lux presented the Anti-Trust Preamble, reminding the committee they are bound by it.

(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. This 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 two weeks. 90 claim files were reviewed from a list of closed claims. 30 Illinois and Wisconsin claims were randomly selected from a list of 283 and audited. 60 Kentucky claims were randomly selected from a list of 260 and audited.

Wrap-Up

In Attendance

Andy Lewis	State Farm Insurance
Stacie Darnell	Kentucky National
Dan Pendleton	Kentucky Farm Bureau
Henry Goins	Kentucky Farm Bureau
Kim Burnell	Travelers Insurance
Val Thompson	State Farm Insurance
Russ Thornton	Kentucky FAIR Plan – Claims & Underwriting 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

Ms. Lux called the meeting to order at 11:00 AM on August 23, 2023, 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:

- Well documented files
- Properly notated estimates with line-item notes
- Timeliness was consistent with industry standards
- Opportunity to ensure a thorough attention to detail

(6) Assignment of Executive Summary:

The Executive Summary for Kentucky was assigned to Dan Pendleton to be completed and returned via email to Ms. Lux by Monday, August 28, 2023. The Executive Summary for Illinois & Wisconsin was assigned to Kimberly Burnell to be completed and returned similarly.

(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

August 2023

Submitted by:

Dan Pendleton, Kentucky Farm Bureau

Henry Goins, Kentucky Farm Bureau

Stacie Darnell, Kentucky National

Andy Lewis, State Farm

The 2023 Kentucky FAIR Plan Claims Audit was conducted between August 10 and 24, 2023. 260 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: 260
 Date range of files presented for review: Reported to KFP between September 2022 and July 2023

RESULTS:

Section	Acceptable	Not Acceptable	Comments
Timely Assignment to IA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Contact / Communication	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Coverage Review	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Investigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Documentation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Kentucky Claims Handling Standards	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Loss Payment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Subrogation / Salvage	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Overall File Quality	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

Compliance with Regulations

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

Were the following behaviors identified during this audit: No

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

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

If yes, please explain:

SUMMARY OF FINDINGS AND RECOMMENDATIONS:

Overall file adequacy: 99.26 %

Observations from this audit:

- Well documented files
- Properly notated estimates with line-item notes
- Timeliness was consistent with industry standards
- Overall excellent audit results

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.

Dan Pendleton
COMMITTEE MEMBER

8/28/2023
DATE

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

Underwriting Audit Meeting Minutes August 8 and August 23, 2023

The 2023 Underwriting Audit was held virtually beginning on August 8, 2023, and ending on August 23, 2023.

Attendance, August 8, 2023:

Oliver Casey	CNA
Dwayne Taylor	State Farm Insurance
Andy Heim	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting Manager
Keith Howard	Kentucky FAIR Plan – Alliance Underwriter
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:

Ms. Lux 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 15-20 policies over the next several days and provide their results, electronically to Ms. Lux by 8 AM Monday August 21, 2023.

Attendance, August 23, 2023:

Oliver Casey	CNA
Dwayne Taylor	State Farm Insurance
Andy Heim	Kentucky Farm Bureau Insurance Companies
Steve Shubert	Kentucky FAIR Plan – Underwriting Manager
Keith Howard	Kentucky FAIR Plan – Alliance Underwriter
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 15-20 files each this year. She shared the summary of results with the group. Conversation was held and feedback was shared by the auditors.

- Files were thoughtfully documented.
- Underwriting procedures were reliably applied and identifiable.
- Coverage limitations and surcharges were appropriate.
- The reason an application is being submitted to the Plan is generally evident in either the application or the notes.

(4) Assignment of Executive Summary Duties:

The committee designated Dwayne Taylor from State Farm would complete the Executive Summary and forward it to Ms. Lux by Monday August 28, 2023.

(5) Other Business:

Two other business items were discussed. Ms. Lux explained that we have seen three months recently that had higher application counts than last year. This is the first time we have seen three consecutive months with increasing counts. The year-over-year numbers are still lower than last year.

Ms. Lux further explained that the Plan has issued two commercial policies of note this month. The first is considered a National Historic Landmark, a previous teaching hospital converted to a bed and breakfast

written at \$245,000. The second is a 34-room motel that is being converted to apartments, written at \$340,000. These new policies are being shared with this committee as they represent relatively high-limit policies coming to the FAIR Plan as a last resort.

Ms. Chlon presented information regarding installment fees including a brief history and account of present-day charges. She explained the communication that has taken place amongst other FAIR Plans and the information gathered reflected fee amounts between \$6 and \$10 per transaction. Additionally, Ms. Chlon explained that we do not charge insureds for these fees nor has the charge per installment fee increased from \$4 in over 20 years. Considering that many policy-processing transaction charges have recently increased approximately 15%, she asked this Committee to determine if an increase in installment fees would be appropriate, and if so, how much.

After a brief discussion took place, a motion was made by Mr. Casey to increase the installment fee to \$6 by July 1, 2024. The motion was seconded by Mr. Heim. Mr. Taylor agreed, and the motion carried. Ms. Chlon explained that this decision will be communicated to the full Governing Committee in the fall.

(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
2023
UNDERWRITING AUDIT

August 8 & 23, 2023

Submitted by the Underwriting Committee:

Dwayne Taylor, State Farm Insurance

Andy Heim, Kentucky Farm Bureau

Oliver Casey, CNA

Executive Summary:

The 2023 Underwriting Audit was conducted virtually between August 8 and August 23, 2023. Following the reading of the Anti-Trust Preamble, Ms. Lux 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 2023 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 55 files were selected at random from 252 possible underwriting files. Files reviewed included commercial, homeowner, dwelling fire, and farm fire policies. The list represents policies written and premium-bearing endorsements over the previous 12 months. 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 September 2022 and June 2023.

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

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

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

Summary of Audit Findings:

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

Overall file adequacy: 98.64% (Adequacy = # yes (363) / # of yes + # of no (368))

Audit Observations and Recommendations:

- Sound underwriting decisions were made.
- Thoughtfully documented files.
- Easy to follow the underwriting thought process.
- Recommendations include specifically noting why the applicant has come to the FAIR Plan
 - If reason listed on the application, acknowledge that reason, and confirmation of same, in the notes.

Submitted by Auditor & Underwriting Committee Member:

Dwayne Taylor

Auditor

8-25-2023

Date

Addendum

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

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

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

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

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

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

Denial/Cancellation/Non-Renewal:

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

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

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

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

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

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

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

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

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

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

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

Inspection Ordering:

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

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

Pursuant to notice, a meeting of the Reinsurance and Equity Committee was held at 10:00 AM on September 13, 2023 via teleconference.

Present:

Kristen Mellinger	Kentucky Farm Bureau Insurance Company
Mark Hillis	Kentucky FAIR Plan – Executive Director
Melissa Chlon	Kentucky FAIR Plan – Assistant Director
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 that Mr. Feltman from State Farm had provided his proxy to Ms. Mellinger and as such noted that 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 14, 2022 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 2023 to 2024 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. An additional tool used this year is the Severe Thunderstorm Risk Magnitude Index (StoRMi), which is an internally developed solution at Guy Carpenter. StoRMi is a county-resolution hazard metric for U.S. severe thunderstorm activity. According to the StoRMi index, the Plan does not have any risks in the extreme category and relatively few in the very high category. 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 2023-2024 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 year. As such, the Plan has seen below usual interest in even quoting the submission. As such, Firm Order Terms were sent to market with a 4% ROL. Mr. Hillis noted that for the 2022-2023 placement, there was a 3.25% ROL for 75% of the placement, and 4% ROL for the remaining 25%. He noted that he was hopeful

to get 60-75% of the placement with the 4% ROL but that in order to fill the placement, he would not be surprised if the Plan would have placement at a higher ROL.

Mr. Hillis noted that there were still 17 days left to place the cover and seek interest, however he believed that the 4% ROL was the absolute best the Plan could secure, and based upon the lack of interest, believed that the remaining placement may be higher.

Mr. Hillis noted that the worst-case scenario would be that they could not place the entire coverage and if that were to be the case, the Plan could essentially self-insure with placement of the unplaced remainder of the program.

Mr. Hillis sought agreement to place as outlined above, with the worst-case scenario having the Plan self-insure any remaining percentage.

Mr. Hillis noted that supporting documents had shown the largest expected earthquake impact with \$6M 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.

Ms. Mellinger 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 4% and higher and to self-insure any outstanding percentage. The motion carried.

5. Review of Member Equity Policy:

Mr. Hillis advised that the Plan's Member Equity position at the end of 2022 was \$16,210,700 and noted that written premiums at the end of 2022 were \$2,681,328. 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 Plan's 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.

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.

6. Other Business:

Mr. Hillis advised that the next Governing Committee meeting is scheduled for October 25, 2023.

7. Adjournment:

There being no further business, Ms. Mellinger motioned to close the meeting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark Hillis". The signature is written in a cursive style with a large initial "M" and a long, sweeping tail.

Mark Hillis

Executive Director

FAIR PLAN REINSURANCE ASSOCIATION FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 10:30AM on October 10, 2023.

Present for the meeting:

Rob Cummisford (via Zoom)	Kentucky Farm Bureau Mutual Ins.
Rudy Schlich	Old Kentucky Insurance
Mark Hillis	Kentucky Insurance Plans
Melissa Chlon	Kentucky FAIR Plan
Erin Lux (via Zoom)	Kentucky FAIR Plan
Tina Faleide, CPA	Kentucky FAIR Plan
Chuck McCurdy	Cerity Partners Financial Group
Ryan Burch	Cerity Partners Financial Group

1. Call to Order:

Mr. Hillis called the meeting to order and noted that Ms. Lisa Pierce had given her proxy to Mr. Schlich. He then 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 April 12, 2023, Investment Committee Meeting had been approved by the full Governing Committee.

4. Report of the Accounting Manager:

Ms. Faleide provided a report showing the change in written premium, assets, liabilities, and members equity. Consistent with prior years, the Plan has seen a decrease in written premium, assets, and member equity. She further shared Loss, Expense and Combined Ratio results.

The balance in the Republic Bank and ICS accounts reflected a total of \$986,829 as of June 30, 2023.

A brief conversation was held about the state of the market in Kentucky, with Mr. Hillis and Mr. Schlich noting a hardening of the market, and an increase in rates across most lines that appear to be increasing at a fast pace.

Mr. Hillis noted that the Kentucky FAIR Plan has continued to provide services to other FAIR Plans via a FAIR Plan Cost Sharing Alliance. Mr. Hillis detailed the origin of the Alliance, specifically that participation grew quickly during the 2020 pandemic. He shared information about the Colorado FAIR Plan that is being created and that the Plan may request assistance from the Alliance. Partnership with Colorado FAIR Plan is supported by the Kentucky Governing Committee and Kentucky Department of Insurance. As the Alliance continues to grow the residents of the Commonwealth are

still being fully supported.

Mr. Hillis noted that the FAIR Plan Cost Sharing Alliance LLC has been formed and will be funded later this year. He noted that he would be asking the full Governing Committee for \$625,000 to be moved from the FAIR Plan into its LLC for the initial funding. He noted that those states currently in the Alliance which Kentucky is providing services to included Missouri, Illinois, Indiana, Wisconsin, Washington, Minnesota and most recently, Kansas. The mission of the Alliance is to efficiently and effectively run different aspects of Plans to save industry dollars. Currently Kentucky is assisting with underwriting, claims, accounting, IT, system support, and print services. Kentucky is reimbursed for associated costs, which supports efficiencies in other FAIR Plans, and allows the Plan to offset expenses.

5. Report to the Investment Managers – Chuck McCurdy and Ryan Burch:

Mr. McCurdy shared a recap of the markets since the last gathering in April of this year. He noted that the economy is still incredibly resilient. Mr. McCurdy noted that where there are still areas that are challenging, including housing and mortgage rates, the overall earnings estimate is very optimistic.

A discussion was held regarding our approach to the 25% equity maximum (currently at 24%.) Mr. Burch also noted we have a few funds that are near the 10% max (currently at 9%) but he feels that no changes are immediately required but we may consider changes in the future. A withdrawal of \$1MM was taken in April of this year with no other similar transactions. Overall performance is as expected.

6. Investment Analysis:

Mr. Burch reviewed the portfolio allocation and the asset class breakdowns. The majority of assets are in the Large-Cap space, with some opportunities to increase the US Mid-Cap and US Small-Cap. Maturities have been reinvested. Regarding loss harvesting, there are estimated losses that can be hedged with potential moves and considering a transition to ETFs which could offset losses by savings of approximately \$20,000. A review of bond ratings and maturity dates wrapped up the presentation by Mr. McCurdy and Mr. Burch. With the Plan's minimal effective tax rate, the Treasury yield has proven to be much more beneficial than municipal bonds.

Mr. Hillis noted a potential movement of funds in November into the LLC for initial funding. There is a bond maturing for \$350,000 mid-November that can be considered in the funding.

Mr. Cummisford presented a review of the portfolio, commenting on mutual fund performance as well as bonds and the goal of holding them to maturity.

Mr. Burch and Mr. McCurdy will present a proposal to the Plan to include a re-allocation of equity investments as well as cash liquidation for the November transfer of funds to the LLC. In additions, Mr. Burch and Mr. McCurdy will provide Mr. Cummisford with a list of recent transactions in the account.

Mr. Hillis thanked Mr. Cummisford, Mr. Schlich, Mr. Burch, and Mr. McCurdy for their

work on this Committee. He also thanked Ms. Faleide for her management, organization, and knowledge of the Plans financials.

7. **Other Business:**

Mr. Hillis advised that the next Governing Committee meeting is scheduled for 10:30 AM on October 25th, 2023.

8. **Adjournment:**

There being no further business, the meeting was adjourned.

Respectfully Submitted



Mark Hillis

Executive Director / Secretary Treasurer

**KENTUCKY FAIR PLAN REINSURANCE
ASSOCIATION
FAIR Plan Cost Sharing Alliance Subcommittee**

Pursuant to notice, a meeting was held at 12:30 PM on October 19, 2023, via teleconference.

Present for the meeting:

Kristen Mellinger
Rudy Schlich
Todd Feltman
Mark Hillis
Melissa Chlon
Erin Lux
Tina Faleide

Kentucky Farm Bureau
Old Kentucky Insurance
State Farm Insurance
Kentucky FAIR Plan
Kentucky FAIR Plan
Kentucky FAIR Plan
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 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.

4. Report of the Plan Manager:

4.a Meeting and Work Overview

Current states in the Alliance include Illinois, Wisconsin, Minnesota, Indiana, Missouri, Washington State, Kentucky, and Kansas. Kansas is the most recent addition, coming to the Alliance with an immediate need. With the hiring of an employee that had previously

handled Kansas FAIR Plan claims, we have met their needs and are now handling all Kansas claims and claim reporting.

Work completed by Plan Management to-date includes but is not limited to the formation of the LLC, securing an Alliance EIN, and updating payroll services (Paycor). The Plan is also actively working with RMS who, in turn, are working with John Hancock to transition employees from the FAIR Plan to the Alliance. Mr. Hillis recognized Plan Accounting Manager, Ms. Faleide, for her ongoing and extensive efforts to move the Alliance forward.

The Plan has been using an IT consultant, but that consultant is planning to retire. The IT needs of the Alliance are great. AIPSO may be able to meet this need with them considering forming an Alliance Support Team, led by Tyler Falcone. Whereas AIPSO has substantial staffing and experience, there are some service-level agreement and timeliness concerns that we have which will continue to be vetted.

4.b. Funding

Mr. Hillis noted that as the Plan has been working on 2024 budgets, significant effort has gone into estimating an accurate amount that will be appropriate to fund the Alliance at the onset.

Mr. Hillis noted that a holistic approach was taken with the estimated annual billings from Alliance Plans, without the inclusion of Kansas as they joined just this month. The group collectively reviewed the documentation provided to this committee ahead of the meeting. Mr. Hillis noted that the recommendation is to move \$625,000 from the Kentucky FAIR Plan accounts to the new account for the Alliance.

Mr. Hillis noted that the one uncertainty remained the Colorado FAIR Plan and noted that if they sought the assistance of the Alliance and chose to contract with the Alliance, that he believed the Alliance may be required to carry Colorado costs for a few months until Colorado had assessed the industry adequately to reimburse the Alliance. He noted that he was comfortable holding at the \$625k figure, but that if Colorado joined the Alliance, that the Alliance would need to immediately hire 2-3 (minimum) individuals to add to the Alliance staff.

Mr. Feltman motioned to recommend moving \$625k from the Kentucky FAIR Plan into a new account for the FAIR Plan Alliance. Ms. Mellinger seconded the motion. Mr. Schlich supports it as well, and the motion carried.

Mr. Hillis noted that with the creating and funding of the Alliance, this Committee would likely disband and be replaced by the FAIR Plan Cost Sharing Alliance Governing Committee.

5. Other Business:

Mr. Hillis reminded the committee that the FAIR Plan full Governing Committee was scheduled to meet on October 25th at 10:30am ET at the FAIR Plan offices.

6. Adjournment:

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stephen Mark Hillis". The signature is fluid and cursive, with the first name "Stephen" being the most prominent.

Stephen Mark Hillis

Executive Director

Kentucky FAIR Plan

Budget

	2023 Budget	2023 as of 6/2023	2023 Proj.	2023 Projected as % of Total	2024 Budget
Accounting Fees	20,473	19,364	19,364	94.58%	21,300
Actuarial Review	16,016	2,816	16,016	100.00%	7,816
Board Meetings	700	523	700	100.00%	700
Bldg-Repairs & Maint.	24,932	11,978	24,000	96.26%	25,644
Building-Utilities	9,601	4,425	9,000	93.74%	9,032
Building-Taxes	9,541	0	9,541	100.00%	9,783
Computer	60,914	25,575	55,000	90.29%	64,542
Dues & Subscriptions	2,549	550	2,000	78.46%	2,550
Education	3,940	149	1,000	25.38%	3,311
Empl. Portion-401-K	28,338	11,918	24,000	84.69%	28,276
Health Insurance	182,975	75,568	155,000	84.71%	168,756
Human Resources	13,825	5,484	13,000	94.03%	15,120
Inspections	43,087	21,671	43,000	99.80%	41,517
P & C Insurance	49,350	262	48,000	97.26%	51,416
Legal/Professional	53,045	12,642	25,000	47.13%	41,318
Meals & Ent.	2,000	362	2,000	100.00%	2,000
Membership Fees	40,979	28,852	39,852	97.25%	37,500
Miscellaneous	1,200	38	1,200	100.00%	1,200
Office Equipment	1,500	1,220	1,500	100.00%	1,500
Office Supplies	5,000	2,671	5,000	100.00%	5,000
Payroll Fees	1,715	1,184	2,368	138.06%	2,376
Payroll Tax	94,460	32,453	65,000	68.81%	94,253
Pensions	124,688	53,394	110,000	88.22%	124,414
Postage	9,413	-899	3,000	31.87%	6,115
Printing	1,699	835	1,500	88.30%	1,500
Processing	146,848	24,288	125,000	85.12%	146,711
Repairs & Maint.-Off. Eq.	1,789	678	1,500	83.84%	2,000
System Enhancements	25,000	12,000	25,000	100.00%	25,000
Telephone	24,360	12,539	25,000	102.63%	19,239
Travel	11,000	3,960	10,000	90.91%	11,000
Wages	944,604	430,610	960,000	101.63%	942,534
FAIR Plan Alliance	-155,000	-113,733	-230,000	0.00%	-230,000
Totals	\$1,800,542	\$683,377	\$1,592,541	88.45%	\$1,683,426



“Serving the Insurance Industry”

August 30, 2023

Melissa Chlon
Assistant Director/Plan Manager
Kentucky FAIR Plan Reinsurance Association
P.O. Box 437249
Louisville, KY 40253

Kentucky FAIR Plan
2023 Dwelling Program Rate Review and Proposal

Dear Melissa:

Enclosed is a proposal for your review and actions. This was developed for your Governing Committee to consider in support of a possible rate filing.

Rate Review

We completed a full actuarial analysis and reviewed the Plan’s underwriting results and change in voluntary market rate level since the Plan’s last rate revision.

Actuarial Analysis (Exhibits 1-7)

The statewide indication is based on a review of the Plan’s experience for calendar years 2013 through 2022. Following generally accepted procedures, the premiums are adjusted for rate changes and inflationary trends and the losses are adjusted to smooth excess losses and for inflationary trends. Expenses include provisions of 0.0% for profit and 1.0% for contingencies. This analysis produced a statewide rate level indication of 7.9%.

Underwriting Results (Exhibit 8)

Over the ten-year period ending 6/30/2023 the Plan developed an underwriting margin of 11.7%, suggesting the Plan retained approximately \$0.12 (12 cents) of every \$1.00 of premium earned over this timeframe. It should be noted that the UW margin has dropped considerably to -5.9% for the latest five years, and -21.5% for the latest three. Please see Exhibit 8 of the attachments for further details.

Voluntary Market Rate Level

Plan rates were last revised effective June 1, 2022 which included the adoption of the loss costs from Insurance Services Office (ISO) reference filing DP-2020-RLA1. Since that time, new loss costs have been approved in reference filing DP-2022-RLA1 for an overall increase of 0.6%. The change in ISO loss costs is used as a proxy for the change in voluntary market rate level.

Proposal

To help the Plan achieve break-even basis on its rate structure a 7.5% rate increase for the Dwelling Program is proposed (Exhibit 2).

This proposal:

- Adopts the base class loss costs from ISO reference filing DP-2022-RLA1
- Revises the loss cost multiplier from 3.800 to 4.200
- Revises condition charges, vandalism & malicious mischief rates, the mobile or trailer home surcharge, and the rates for additional other structures coverage

Plan rates would be a combination of the base class loss costs from reference filing DP-2022-RLA1 and the proposed 4.200 loss cost multiplier. In support of this proposal the following exhibits are provided, and these exhibits will constitute the Dwelling Program rate filing should the Committee elect to file:

- Kentucky Department of Insurance – Calculation of Loss Cost Multiplier, Form LC-1 P&C
- Actuarial Memorandum
- Kentucky FAIR Plan Rate Review, Exhibits 1-10

The anticipated effective date is June 1, 2024 for new business and renewals.

Please keep us advised of any actions taken with respect to this proposal. We will be available if you would like us to take part in a discussion of this proposal with your Governing Committee.

Sincerely,

Dave Gill
AIPSO Actuarial Services
(401) 528-1430
David.Gill@aipso.com



"Serving the Insurance Industry"

August 30, 2023

Melissa Chlon
Assistant Director/Plan Manager
Kentucky FAIR Plan Reinsurance Association
P.O. Box 437249
Louisville, KY 40253

Kentucky FAIR Plan
2023 Homeowners Program Rate Review and Proposal

Dear Melissa:

Enclosed is a proposal for your review and actions. This was developed for your Governing Committee to consider in support of a possible rate filing.

Rate Review

We completed a full actuarial analysis and reviewed the Plan's underwriting results and change in voluntary market rate level since the Plan's last rate revision.

Actuarial Analysis (Exhibits 1-7)

The statewide indication is based on a review of the Plan's experience for calendar years 2013 through 2022. Following generally accepted procedures, the premiums are adjusted for rate changes and inflationary trends and the losses are adjusted to smooth excess losses and for inflationary trends. Expenses include provisions of 0.0% for profit and 1.0% for contingencies. This analysis produced a statewide rate level indication of 19.5%.

Underwriting Results (Exhibit 8)

Over the ten-year period ending 6/30/2023 the Plan developed an underwriting margin of 8.4%, suggesting the Plan retained approximately \$0.08 (8 cents) of every \$1.00 of premium earned over this timeframe. It should be noted that the UW margin has dropped considerably to -17.4% for the latest five years, and -49.7% for the latest three. Please see Exhibit 8 of the attachments for further details.

Voluntary Market Rate Level

Plan rates were last revised effective June 1, 2022 which included the adoption of the loss costs from Insurance Services Office (ISO) reference filing HO-2020-RLA1. Since that time, new loss costs have been approved in reference filings HO-2021-RLA1 and HO-2022-RLA1 for an overall decrease of -3.1%. The change in ISO loss costs is used as a proxy for the change in voluntary market rate level.

Proposal

To help the Plan achieve break-even basis on its rate structure while recognizing it serves insureds who cannot obtain insurance elsewhere, a 9.5% rate change for the Homeowners Program is proposed (Exhibit 2).

302 Central Avenue, Johnston, Rhode Island 02919
(401) 946-2310 FAX (401) 528-1350
<https://www.aipso.com>

This proposal:

- Adopts the base class loss costs from ISO reference filing HO-2022-RLA1
- Revises the loss cost multiplier from 3.021 to 3.432

Plan rates would be a combination of the base class loss costs from reference filing HO-2022-RLA1 and the proposed 3.432 loss cost multiplier. In support of this proposal the following exhibits are provided, and these exhibits will constitute the Homeowners Program rate filing should the Committee elect to file:

- Kentucky Department of Insurance – Calculation of Loss Cost Multiplier, Form LC-1 P&C
- Actuarial Memorandum
- Kentucky FAIR Plan Rate Review, Exhibits 1-10

The anticipated effective date is June 1, 2024 for new business and renewals.

Please keep us advised of any actions taken with respect to this proposal. We will be available if you would like us to take part in a discussion of this proposal with your Governing Committee.

Sincerely,

Dave Gill
AIPSO Actuarial Services
(401) 528-1430
David.Gill@aipso.com



"Serving the Insurance Industry"

August 30, 2023

Melissa Chlon
Assistant Director/Plan Manager
Kentucky FAIR Plan Reinsurance Association
P.O. Box 437249
Louisville, KY 40253

Kentucky FAIR Plan
2023 Commercial and Farm Property Program Rate Review and Proposal

Dear Melissa:

Enclosed is a proposal for your review and actions. This was developed for your Governing Committee to consider in support of a possible rate filing.

Rate Review

We completed a full actuarial analysis and reviewed the Plan's underwriting results and change in voluntary market rate level since the Plan's last rate revision.

Actuarial Analysis (Exhibits 1-7)

The statewide indication is based on a review of the Plan's experience for calendar years 2013 through 2022. Following generally accepted procedures, the premiums are adjusted for rate changes and inflationary trends and the losses are adjusted to smooth excess losses and for inflationary trends. Expenses include provisions of 0.0% for profit and 1.0% for contingencies. This analysis produced a statewide rate level indication of 3.9%.

Underwriting Results (Exhibit 8)

Over the ten-year period ending 6/30/2023 the Plan developed an underwriting margin of 1.7%, suggesting the Plan retained approximately \$0.02 (2 cents) of every \$1.00 of premium earned over this time frame.

Voluntary Market Rate Level

Plan rates were last revised effective June 1, 2022, which included the adoption of the Commercial Property and Farm Property base class loss costs from Insurance Services Office (ISO) reference filings CF-2020-RLA1 and FR-2020-RLA1. ISO has not revised Commercial Loss Costs since that time. Farm loss costs decreased 6.4% in ISO's latest reference filing FR-2022-RLA1. The change in ISO loss costs is used as a proxy for the change in voluntary market rate level.

Proposal

Due to the minimal indication, low dollar impact, and because ISO has not revised Commercial Property loss costs since the Plan's last rate revision, the Governing Committee might wish to consider taking no change to the current rates. However, should the Committee elect to file based on this review we recommend the

following changes. A 3.5% rate change is proposed that includes the adoption of the Farm loss costs in reference filing FR-2022-RLA1 combined with a change to the Plan's loss cost multiplier. This proposal:

- Uses the current Commercial Property base class loss costs from ISO reference filing CF-2020-RLA1
- Adopts the latest Farm Property base class loss costs from ISO reference filing FR-2022-RLA1
- Revises the Commercial and Farm Property Program loss cost multiplier from 4.069 to 4.295

Plan rates would be a combination of the base class loss costs from reference filings CF-2020-RLA1 and FR-2022-RLA1, and the 4.295 loss cost multiplier. In support of this proposal the following exhibits are provided, and these exhibits will constitute the Commercial and Farm Property Program rate filing should the Committee elect to file:

- Kentucky Department of Insurance – Calculation of Loss Cost Multiplier, Form LC-1 P&C
- Actuarial Memorandum
- Kentucky FAIR Plan Rate Review, Exhibits 1-10

The anticipated effective date is June 1, 2024 for new business and renewals.

Please keep us advised of any actions taken with respect to this proposal. We will be available if you would like us to take part in a discussion of this proposal with your Governing Committee.

Sincerely,

Dave Gill
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Kentucky FAIR Plan Committee Assignments – 2022/2023

Committee	Member	Company
Executive Committee	Rudy Schlich	Old Kentucky Insurance
	Todd Feltman	State Farm
	Mark Hillis -Executive Director	Kentucky FAIR Plan
Investment Committee	Lisa Pierce	Allstate Insurance Co.
	Rob Cummisford	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Chuck McCurdy	Cerity Partners Financial Group
	Mark Hillis - Executive Director	Kentucky FAIR Plan
Members Equity and Reinsurance Committee	Kristen Mellinger	Kentucky Farm Bureau
	Todd Feltman	State Farm
	Mark Hillis – Executive Director	Kentucky FAIR Plan
Audit Committee	Rob Cummisford	Kentucky Farm Bureau
	Todd Feltman	State Farm
	Dawn Whalen	Travelers Insurance
	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
	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.