MedCare Finance, LLC
Insurance Company Risk Mitigation

One of the risks associated with worker's compensation medical receivables is the credit risk associated with the insurance company who is liable for the payment of each claim. This risk is mitigated by a "diversification" strategy as well as legislative statute. Each portfolio contains a large number of separate insurance companies responsible for the payment of the medical receivables in acquired portfolios. In addition, there are state-mandated programs that are required by statue for each insurance company who provides worker's compensation insurance in each state which mitigate and the effect of any insurance company insolvency. For example, the State of California has mandated by law that each insurance company that issues worker's compensation insurance within the State of California is subject to the rules and regulations issued by the California Insurance Guarantee Association ("CIGA"). Other states have similar guarantee associations.

CIGA was created under California law approximately forty years ago. CIGA's mandate is to make payments on claims by workers that cannot be paid by insurers due to insolvency. During its forty years of operations, CIGA has never failed to pay any worker's compensation claims that remained unpaid by insurance companies due to insolvency or bankruptcy.

CIGA is funded by assessments against all insurance companies doing business within worker's compensation insurance in the State of California. In short, any insurance company that wishes to issue worker's compensation insurance within the State of California must be in compliance with CIGA rules and regulations, and pay the applicable fees to CIGA (currently approximately 1.5% of the aggregate amount of insurance premiums collected). In addition, CIGA is authorized by law to issue bonds to cover its mandate if it deems that to be necessary, and to assess the interest payments due under such bonds to be paid by the worker's compensation insurance companies doing business in the State of California. In 2004, CIGA issued a $750 million bond that was rated AAA and that had an underlying rating of AA-.

The expected assets of CIGA as of June 30, 2013, were $780 million with approximately $700 million available for funding non-paid insurance claims. The annual amount of claims payable by CIGA in recent years due to insolvency of insurance companies is approximately $250 million, which is approximately the same amount that CIGA assesses the California worker's compensation companies on an annual basis (plus the interest assessed on these companies to pay interest on the 2004 bond). If CIGA were to be unable to pay any claims in the future for whatever reason, it would be authorized by law to issue additional bonds to raise sufficient capital and assess any interest payments on all of the insurance companies issuing worker's compensation insurance in California.

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