



MINUTES OF THE FORTY-FIFTH ANNUAL MEETING OF THE NORTH CAROLINA REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA, OCTOBER 9, 2019

MEMBERS PRESENT

Allstate Insurance Company

Allstate Indemnity Company
Allstate Insurance Company
Allstate Northbrook Indemnity Company
Allstate Property & Casualty Insurance Company
Allstate Vehicle and Property Insurance Company
Esurance Insurance Company

American Millennium Insurance Company

Atlantic Casualty Insurance Company

Auto Owners Insurance Company
Owners Insurance Company

Geico Indemnity Insurance Company

Amguard Insurance Company
Berkshire Hathaway Homestate Insurance Company
Berkshire Hathaway Specialty Insurance Company
Eastguard Insurance Company
GEICO Advantage Insurance Company
GEICO Casualty Company
GEICO Choice Insurance Company
GEICO General Insurance Company
GEICO Indemnity Company
GEICO Secure Insurance Company
General Star National Insurance Company
Genesis Insurance Company
Government Employees Insurance Company
National Indemnity Company
National Liability & Fire Insurance Company
Norguard Insurance Company
Pennsylvania Insurance Company
Radnor Specialty Insurance Company
United States Liability Insurance Company

REPRESENTED BY

Laura Hoffman

Richard Yarbrough
Robbie Strickland

Melinda Seibold

Hartford Accident & Indemnity Company

Eric Mize

Hartford Casualty Insurance Company
Hartford Fire Insurance Company
Hartford Insurance Company of Illinois
Hartford Insurance Company of Southeast
Hartford Insurance Company of the Midwest
Hartford Underwriters Insurance Company
Maxum Casualty Insurance Company
Nutmeg Insurance Company
Property & Casualty Insurance Company of Hartford
Sentinel Insurance Company Ltd
Trumbull Insurance Company
Twin City Fire Insurance Company

Integon Indemnity Corporation

Art Lyon
David Barson
Rick Pierce
Brian Rogers

Agent Alliance Insurance Company
Century-National Insurance Company
Imperial Fire and Casualty Insurance Company
Integon Casualty Insurance Company
Integon General Insurance Corporation
Integon Indemnity Corporation
Integon National Insurance Company
Integon Preferred Insurance Company
National General Insurance Company
National General Insurance Online, Inc.
New South Insurance Company

Kemper Independence Insurance Company

Robert Zarter

Infinity Insurance Company
Kemper Independence Insurance Company
Merastar Insurance Company
Response Worldwide Insurance Company
Unitrin Auto & Home Insurance Company
Unitrin Direct Property & Casualty Company
Unitrin Safeguard Insurance Company

Mendakota Insurance Company

Casey Brown
Mendi H Riddle
Christine Hague
Gary Morris
Eric Ryan
Nicholas Sizemore
Tom Souder

Nationwide Mutual Insurance Company

Allied Insurance Company of America
Allied Property & Casualty Insurance Company
AMCO Insurance Company
Crestbrook Insurance Company
Depositors Insurance Company
Freedom Specialty Insurance Company
Harleysville Insurance Company
Harleysville Preferred Insurance Company

Harleysville Worcester Insurance Company
National Casualty Company
Nationwide Affinity Insurance Company of America
Nationwide Agribusiness Insurance Company
Nationwide General Insurance Company
Nationwide Insurance Company of America
Nationwide Mutual Fire Insurance Company
Nationwide Mutual Insurance Company
Nationwide Property & Casualty Insurance Company
Scottsdale Indemnity Company
Titan Indemnity Company
Victoria Fire & Casualty Company

North Carolina Farm Bureau Mutual Insurance Company

Roger Batdorff

Farm Bureau Insurance Company of North Carolina
North Carolina Farm Bureau Mutual Insurance Company

Pennsylvania National Mutual Casualty Insurance Company

Teresa Burroughs
Lynette Prosser

Penn National Security Company
Pennsylvania National Mutual Casualty Insurance Company

Permanent General Assurance Corporation of Ohio

Sondra Cavanaugh
Li Bing

American Family Mutual Insurance Company, S.I.
American Standard Insurance Company of Wisconsin
Midvale Indemnity Company
Permanent General Assurance Corporation of Ohio

Sentry Insurance Group

Peter Sampson

Dairyland Insurance Company
Florists Mutual Insurance Company
Middlesex Insurance Company
Peak Property & Casualty Insurance Corporation
Sentry Casualty Company
Sentry Insurance A Mutual Company
Sentry Select Insurance Company

Jamie Boutilier

The Members Insurance Company

Universal Insurance Company

The Travelers Indemnity Company

Kirsten Forbes

Discover Property & Casualty Insurance Company
Farmington Casualty Company
Fidelity & Guaranty Insurance Company
Fidelity & Guaranty Insurance Underwriters Inc
Northland Casualty Company
Northland Insurance Company
Select Insurance Company
St Paul Guardian Insurance Company

St Paul Mercury Insurance Company
St Paul Protective Insurance Company
St. Paul Fire & Marine Insurance Company
Standard Fire Insurance Company
The Automobile Insurance Company of Hartford, Connecticut
The Charter Oak Fire Insurance Company
The Phoenix Insurance Company
The Travelers Indemnity Company
The Travelers Indemnity Company of America
The Travelers Indemnity Company of Connecticut
Travco Insurance Company
Travelers Casualty & Surety Company
Travelers Casualty & Surety Company of America
Travelers Casualty Company
Travelers Casualty Company of Connecticut
Travelers Casualty Insurance Company of America
Travelers Commercial Casualty Company
Travelers Commercial Insurance Company
Travelers Constitution State Insurance Company
Travelers Home & Marine Insurance Company
Travelers Personal Insurance Company
Travelers Personal Security Insurance Company
Travelers Property Casualty Company of America
Travelers Property Casualty Insurance Company
United States Fidelity & Guaranty Company

United Services Automobile Assn Group

Garrison Property & Casualty Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company

OTHERS PRESENT

Able Auto Insurance Agency

Adcock Agency
Insurance Services Office/Verisk Analytics

Jones Insurance Agency, Inc.
Litaker Insurance
Milliman, Inc.
Mountcastle Insurance
North Carolina Department of Insurance
Paschal Law, PA
Public Member – NCRF Board of Governors

Xiaofeng Li

REPRESENTED BY

Jeff Butler
Miles Butler
John Miller
Paul Ericksen
Santee Perfetto
Raul Retian
Wortham W. Boyle
Justin Litaker
Paul Anderson
Jack Calvert
Fred Fuller
Robert Paschal
Dr. Mark R. Royster

Young Moore and Henderson PA

Wellington Management Company

Staff

Brian Beverly
Angela Craddock
Mickey Spivey
Chris Holleman
Eric Tanaka
Joanna Biliouris
Tom Burns
Shelley Chandler
Terry Collins
Edith Davis
Linda Davis
Ray Evans
Vicki Godbold
Keri Johnson
Katie Lovelace
Andy Montano
Rebecca Williams

Two hundred and five (205) other companies were represented by proxy.

The meeting convened as scheduled, Mr. Strickland presiding. Mr. Collins announced that there was a quorum.

Reference was made to the Facility's Antitrust Compliance Policy, Conflicts of Interest Statement, and Code of Ethics and Standard of Conduct Statements, copies of which were included in the materials provided. Mr. Spivey briefly commented on the importance of these guidelines.

1. Minutes of the last meeting

A motion was seconded and passed to approve the minutes from the previous meeting held on October 11, 2018.

2. Annual Report

Copies of the Forty-Sixth Annual Report for the fiscal year ended September 30, 2019 were distributed, a copy of which is attached. Mr. Evans highlighted the members of management staff and offered general observations from the past year. Mr. Evans then reported on progress made towards the current year's goals and reviewed goals for the upcoming year.

3. Chairman's Comments

Mr. Strickland thanked the members of the Facility staff and counsel along with members of the various participating committees. He also shared comments regarding the implementation of the commercial loss recoupment surcharge and the success of that action.

4. Legislative Report

Mr. Paschal noted that the Facility does not lobby but monitors legislation that may impact the Facility member companies and responds to questions by legislators and others regarding the potential impacts of proposed changes. Mr. Paschal then gave a brief description of the make-up of the legislature and advised that the legislature was currently in a long session. Mr. Paschal then provided a brief summary of a number of bills that were considered during the current legislative session including several bills introduced by the Department of Insurance and a number of bills concerning topics such as motorcycles, electric scooters, NAIC accreditation and producer requirements.

5. Chief Information Officer

Ms. Chandler advised of the make-up of the IT department and advised that Frank Lonnett has been named Director of Security. Ms. Chandler also reported that the Facility would be implementing Tableau at the end of 2019 and would be acting as the pilot group for this system.

Ms. Chandler reported that security continues to be a major concern for the IT department and that the organizations successfully avoided a phishing attempt made earlier in the year. Ms. Chandler then reported on the ongoing security plan for the upcoming year, including continued remediation, risk assessment, and management of account access.

6. Recognition

Mr. Collins advised that Laura Hoffman would be leaving the Board and thanked her for her valued contributions to the Board. Mr. Collins then reported that Brian Beverly received the Leader in Law honor, which is awarded to a small number of attorneys each year. Finally, Mr. Collins reported that John Miller received the Independent Insurance Agents of North Carolina's Agent of the Year award and thanked him for his continued work on the Board.

7. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Terry F. Collins

Chief Operating Officer

North Carolina Reinsurance Facility

TFC/lad

Enclosure

RF-19-9



NCRF

North Carolina Reinsurance Facility
2019 Annual Report



Reinsurance Facility

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General Organizational Information

NCRF Main Phone Number	919-783-9790
Facsimile	919-783-0355
Website Address	www.ncrb.org/ncrf/
Physical Address	2910 Sumner Blvd. Raleigh, NC 27616

Management Contacts

NCRF Staff

Ray Evans	General Manager	919-783-9790	rfe@ncrb.org
Terry Collins	Chief Operating Officer	919-582-1076	tfc@ncrb.org
Tom Burns	Director, Auto Operations	919-719-3033	tfb@ncrb.org
Katie Lovelace	Manager, Planning & Analysis	919-718-3041	kml@ncrb.org
Andy Montano	Manager, Automobile	919-582-1021	afm@ncrb.org
Donna Kallianos	Manager, Claims	919-582-1046	dpk@ncrb.org
Edith Davis	Chief Financial Officer	919-582-1006	etd@ncrb.org
Vicki Godbold	Chief Human Resources Officer	919-645-3170	vcg@ncrb.org
Shelley Chandler	Chief Information Officer	919-582-1057	src@ncrb.org

2019 Annual Meeting

The annual meeting of member companies of the North Carolina Reinsurance Facility will be held October 9, 2019, at the Grandover Resort and Conference Center, Greensboro, North Carolina.



General Manager's Report



Ray Evans
General Manager

Famous Green Bay Packers coach Vince Lombardi was asked after his team won the Super Bowl, "How hard was it to win?" He responded that the first one was easy, but the second is going to be difficult. He was suggesting that reaching your goals and keeping focus for a short while or one time is easier than doing it multiple times. In the Reinsurance Facility's 2017 annual report, it was noted that there was "significant angst concerning the Facility's financial position." In 2018 we had to do better, which we did in spite of continuing poor experience for both private passenger auto and commercial auto. The question for 2019 was whether we could continue to make progress.

The key to answering this question, and keeping with a sports theme, is that we established goals for the year that would enable us to "keep our eye on the ball." These goals included the following:

- Significantly reduce members' equity deficits.
- Closely monitor and review the commercial auto loss recoupment program.
- Bolster compliance auditing effectiveness.
- Continue making changes to the commercial auto class plan and rating program to more appropriately rate certain exposures.
- Bring in new technology to help us better understand and access data.
- Evaluate and implement staffing and process changes for more effectiveness.

The short answer is 2019 has been a success, even though this has been written for the annual meetings and complete year-end data is not yet available. The Reinsurance Facility has achieved or made very tangible progress for each of these goals. There is much more detail later in the report, but I will briefly summarize our progress for the six goals listed above.

Most importantly, we have significantly reduced members' equity deficits. Private passenger auto will, in my opinion, be close to a no deficit position by the end of the year—a \$230 million turnaround since June 2017. Commercial auto has been more difficult, but we have still reduced the deficit amount by roughly 20% in the prior 12 months. If experience doesn't worsen, commercial auto should be much closer to our no deficit goal at the end of the second loss surcharge year.

With improvement in commercial auto a key focus, the goals to monitor closely and make changes to the rating plan have heightened importance. Again, as you will read in the remainder of this report, many changes have been made which impact experience, but this is a complex program with many variables, and it is likely to be well into 2020/2021 before the program is where we want it to be.

Bolstering compliance auditing is ongoing, with many recent staffing and process changes. The next step is to hire two compliance managers (one replacement and one new position) to hasten the implementation and monitoring of what we have changed and will change. We are increasing our technology capability with the addition of the widely used program Tableau. Although it is new to the organization, we are learning how to use it effectively in order to better access data and identify trends.

As we make progress towards the goals I detailed, we also have spent a good deal of time managing our expenses, which remain on target. And, we have allocated a considerable amount of time to speaking with commercial auto policyholders, state legislators and organizations representing truckers, as well as North Carolina agents writing their policies, so they better understand our strategies and the need to make changes.

So, again, 2019 has been a good year. Most importantly, we have a strong staff focused on the fundamentals of our business. The progress the Facility is making has required help from our Information Services group with the electronic updates and revisions we have implemented and from Finance for data and management support for our now-growing investment portfolio. Finally, as always, the support and counsel of Reinsurance Facility committees and the Board of Governors, especially the chair, Robbie Strickland, is extremely important to our success.

Message from the Chairman

After many years of serving on the Board of Governors for the Reinsurance Facility, I gladly accepted the nomination of my fellow Board members to serve as Chairman this past year. I knew coming in as Chairman, that we faced many challenges regarding members equity, eligibility and commercial auto recoupment, to name a few. This Board, the staff and committees have met these challenges and others and have made this year very successful. Looking back, it has been an interesting, productive and informative year.

Below are the highlights of our year.

- Our members' equity position through June improved dramatically during the year, posting a \$126 million gain versus prior year. This was the second consecutive year of betterment and one that reaffirmed the ability of the organization to overcome adversity. Fortunately, the very nature of the Facility allows it to exercise patience along with diligence when addressing an issue.
- It was quite an accomplishment for staff to absorb the additional workload produced with the implementation of the commercial auto loss recoupment. A portion of the team was simply inundated during the first six months of the year as they adjusted to this new reality of supporting an additional one hundred-plus active commercial auto writers.
- Ceded written premiums are flowing in line with prior year and should again exceed \$1 billion when the fiscal year ends. A lower policy in force count indicates favorable movement of risks back to the voluntary market. Average premiums are showing increases as a result of rate revisions in both private passenger auto and commercial auto.
- Facility loss trends remained stable for a second year. Coupling this with higher average premiums and recoupments should allow for continued bottom line improvement.
- During the year, the organization was able to firm up and strengthen staff with the hiring of several associates with prior industry experience. Adding this recent business expertise to the existing associate knowledge base generated new ideas, refreshed existing skillsets and strengthened teamwork, ultimately leaving us with a stronger Facility.
- Facility leadership had several opportunities to meet and/or speak with legislators, trade groups, insureds and both prospective and current company members. The discussions provided a platform for knowledge sharing among the parties as each sought to listen and learn. I feel that this additional education is good for all involved.
- Expense management remains firm, with the Facility's expenses approximately 5% under budget through June. However, we do expect to see this gap shrink through the remainder of the year.
- The investment portfolio has benefited from the improvement in our net operating results, which generated deposits into our investment portfolio. Our return through June 30, 2019, has outperformed our benchmark over the last 12 months.

I have thoroughly enjoyed my year as Chairman, and it has been a pleasure working with my fellow board members and the Facility staff. As Chairman, I have spent much more time with the Facility staff, allowing me to gain an even greater understanding of their work for the member companies. I also want to thank all the committee members for their efforts and hard work. The level of expertise and dedication each committee member possesses is truly appreciated by the Board of Governors and the NCRF Staff. I look forward to working with each of you in the coming year to continue to meet the needs of our member companies.

Robbie Strickland
Atlantic Casualty Insurance Company, *Chairman*

Board of Governors

Responsibility for management is vested in a 15-member Board of Governors. The Board includes 12 voting members, seven member insurance companies, and five agents appointed by the Insurance Commissioner; two nonvoting public members appointed by the Governor; and the Insurance Commissioner, who is a member of the Board ex-officio without vote. Seven meetings of the Board were held during the year, including three telephone conferences.

Agent Members	Representative
Agent at Large	Wortham M. Boyle
Agent at Large	Justin Litaker
Auto Insurance Agents of North Carolina	Jeffrey W. Butler
Independent Insurance Agents of NC	John Miller
Independent Insurance Agents of NC	Andy Calvert

Members	Representative
Allstate Insurance Company	Laura Hoffman
Atlantic Casualty Insurance Company*	Robbie Strickland
GEICO Indemnity Company	Mindy Siebold
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Company	Mendi Riddle
NC Farm Bureau Mutual Insurance Company	Roger N. Batdorff
The Travelers Indemnity Company	Kirsten Forbes

Public Members	Ex-officio Member
J. David Walker	Mike Causey, Commissioner of Insurance
Reverend Dr. Mark R. Royster, Sr.	

Standing Advisory Committees

The Plan of Operation establishes a number of advisory committees. These committees oversee the activities of the Facility and formulate recommendations for presentation to the Board of Governors. In addition, several other specialty advisory groups perform similar tasks for the Facility throughout the year.

Audit Committee

Members	Representative
Liberty Mutual Insurance Company*	Judi Gonsalves
NC Farm Bureau Mutual Insurance Company	Brian Top
Nationwide Mutual Insurance Company	Eric Ryan
Pennsylvania Nat Mut Casualty Ins Company	Jonathan S. Dillion
State Farm Mutual Automobile Ins Company	Todd Sivills
The Travelers Indemnity Company	Jennifer Baurle
Agent	John Miller

Compliance Committee

Members	Representative
Atlantic Casualty Insurance Company	Mark Caughron
GEICO Indemnity Company	Tori Smith
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Company	Nick Sizemore
Universal Insurance Company*	Jamie Boutillier
Agent	Andy Calvert

Investment Committee

Members	Representative
Allstate Insurance Company	Ronald Pullie
Nationwide Mutual Insurance Company*	John G. Morris
State Farm Mutual Automobile Ins Company	Robert Stephan

*Chair

Rating Committee

Members	Representative
Atlantic Casualty Insurance Company*	Mark Caughron
Integon Indemnity Corporation	Brian Rogers
Nationwide Mutual Insurance Company	John-Michael Gillivan
NC Farm Bureau Mutual Insurance Company	Roger N. Batdorff
The Travelers Indemnity Company	Edward A. Bosk
Agent	John Miller

Task Force on Expense Allowances

Members	Representative
Allstate Insurance Company	Laura Hoffman
GEICO Indemnity Company	Maren Kench
Nationwide Mutual Insurance Company*	Nick Sizemore
Sentry Insurance A Mutual Company	Peter Sampson
State Farm Mutual Automobile Ins Company	Todd Sivills
Universal Insurance Company	Jamie Boutillier
Agent	Justin Litaker

Task Force on Recoupment

Members	Representative
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Company	Nick Sizemore
NC Farm Bureau Mutual Insurance Company	Roger N. Batdorff
Progressive Casualty Insurance Company	Kevin McGee
State Farm Mutual Automobile Ins Company*	Todd Sivills
Universal Insurance Company	Jamie Boutillier
Agent	Wortham M. Boyle

Management Report



Terry Collins
Chief Operating Officer

Another rewarding year has passed at the North Carolina Reinsurance Facility. We delivered on the most pressing challenge of reducing the members' equity deficit, continued to address the pressure in commercial auto and maintained a focus on enhancing our efficiency and effectiveness—all while ensuring the statutory requirement of maintaining "...the availability of motor vehicle insurance to any eligible risk..."

Below are some of our most notable accomplishments:

- Generated robust improvement in the members' equity with the culmination of multiple prior actions by the Board of Governors, reducing the deficit by over \$100 million in the last 12 months.
- Implemented the first commercial auto loss recoupment since the late 1980s. Provided member support that included problem resolution and targeted audits for 100+ member companies.
- Augmented our experienced staff with several new industry professionals due to the heightened complexity within both the industry and the Facility.
- Filed and implemented rate increases in both private passenger auto and commercial auto.
- Witnessed 11 additional companies becoming members of the Facility. This growth was on top of the seven carriers that joined us last year. We view this as a reflection of a healthy North Carolina insurance marketplace and the efforts of the Facility team.

In spite of favorable macro results, we still face a challenge in commercial auto, where our members' equity remains at an unacceptably high deficit. Fortunately or unfortunately, the Facility is not alone as the industry also continues to face difficulties with this line of business. Industry analysts, rating agencies and trade organizations recognize the multiple ongoing issues with commercial auto. While their opinions are not new, they are worth repeating:

There are more vehicles on the street, being driven more miles, on roads that are in less than superb condition, with a myriad of distractions drawing attention away from the task at hand.

Additionally, the premiums charged by the industry for this line have lagged behind the severity and frequency trends, and loss reserves have generally been inadequate. While the above factors will impact both the industry and Facility, our ongoing actions of rate increases as indicated by the data, loss recoupment and increased audits will continue to assist in the turnaround of our results.

Operating Results

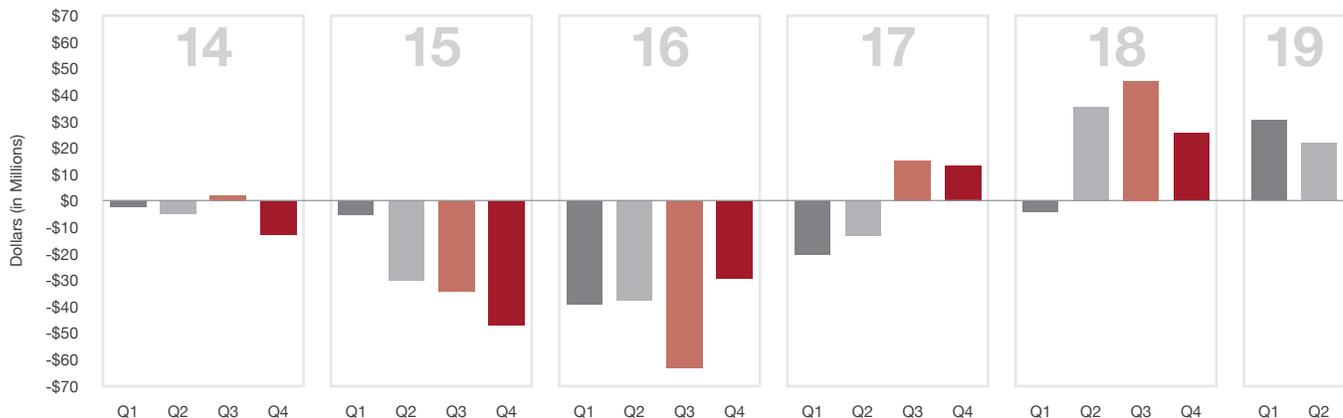
How did the numbers play out? Our net operating results were positive for the second consecutive year, and we made strong strides in total members' equity. We maintain a sharp focus on members' equity as it is one of our highest priorities. Changes in these balances are monitored very closely by both staff and committees, and appropriate action is taken under the oversight of the Board of Governors and within the guidelines outlined in the governing statutes.

Total members' equity showed marked improvement from June 2018, with a deficit reduction of \$126 million. This year also was the second successive one with such a strong recovery. The total members' equity balance as of June 2019 is -\$134.6 million. While the balance does remain negative, the significant progress simply cannot be ignored.

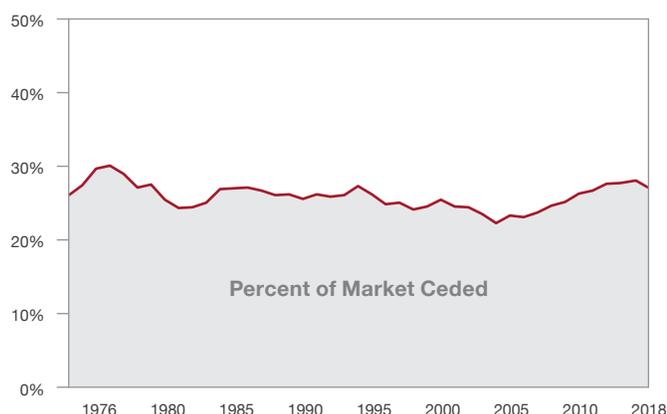
The strong gain in total members' equity was primarily the result of a much improved position in private passenger auto. A combination of recoupment and rate revisions where allowed helped generate significant improvement in net operating results over the last 12 months. The resulting private passenger auto deficit was much smaller than prior year at -\$32.7 million as of June 2019.

Total incurred loss trends have been flat for the past 10 quarters, helping to ease the pressure on our bottom line and support the above equity improvements. While results have also held fairly steady for commercial auto over the past year, the members' equity there stands at an objectionable -\$101.9 million. The ongoing efforts on this line of business will remain centered on rate revisions where allowed, loss recoupment and increased audits. The Board recognizes that this negative balance did not occur overnight and will not be recovered overnight. As we have seen with private passenger auto, patience is a necessary virtue as it takes time for prior actions to be reflected in the results.

Net Results of Operations (After Recoupments)



Share of NC Auto Liability Market Ceded by Calendar Year



Volume

The North Carolina Reinsurance Facility remains the largest residual market mechanism for automobile insurance in the United States. The Facility provides reinsurance for approximately one-quarter of the automobile liability business written in North Carolina. While this figure has remained notably stable since the Facility was created in 1973, as illustrated in the chart above, the market share for calendar year 2018 decreased to the lowest level in four years.

Our ceded exposure distribution has remained stable over the last several years. The segmented exposure base shows 77% as private passenger “clean risks,” 20% as private passenger “other-than-clean” risks and the remaining 3% of ceded exposures commercial auto risks.

Total cession volume has dropped again, with a 3% decrease following last year’s 5% reduction. Both private passenger auto and commercial auto have posted decreases in cession volume over the past two years. Our total policies in force have slowly trended downward since peaking in early 2017. As of June 2019, we had slightly less than 1.3 million policies in force—a 2% decrease from prior year. Even with this slight drop, these policies generate a large volume of activity, typically exceeding 37 million transactions annually. Private passenger auto, which is also 2% below prior year and contributes 98% of our policy count, is obviously the driver behind the longer policy in force trend. The commercial auto policy count has been relatively flat over the past 18 months, hovering in the low 27,000 range.

Written premium for the fiscal year ending September 2019 is projected to again exceed \$1 billion and finish very close to the previous fiscal year. With an overall lower policy count, higher average premiums are supporting this premium level. The distribution of written premium remains roughly 90% private passenger auto and 10% commercial auto.

Rates, Rules and Forms

Personal Auto Program Changes

Effective October 1, 2018:

The Facility did not implement an auto liability rate change on “clean risks.” However for “other-than-clean” private passenger risks, the Facility filed and implemented a +7.6% rate increase over the rates

previously in effect. Bodily Injury, Property Damage and Med Pay rates were each revised.

Effective October 1, 2019:

The Facility implemented an average +11.3% auto liability rate change on “clean risks” in tandem with voluntary rates settled between the North Carolina Rate Bureau and the Department of Insurance. All liability coverages were impacted by this revision.

Motorcycle relativities were also adjusted to reflect the above changes in the auto base rates.

The Facility also filed and implemented an average -9.9% auto liability rate change on “other-than-clean” private passenger risks. The rates for Bodily Injury, Property Damage and Med Pay were each revised.

Commercial Auto Program Changes

Effective April 1, 2019:

For commercial auto risks, the Facility filed and implemented revised basic limits liability rates effective for trucks, tractors, trailers, private passenger types not eligible for rating under the North Carolina Personal Automobile Manual, Zone-Rated Risks and Publics. Increased limit factors for liability coverages rated under the Commercial Automobile Manual were also reviewed and adjusted. Reflecting the unfavorable commercial auto loss experience, the various rate level changes in this filing averaged 26.1% over the rates previously in effect.

Work continues on developing a new auto class plan based on the new ISO Commercial Auto Class Plan. With an anticipated effective date of October 2021, details for the rating factors and manual rule revisions are ongoing. A mid-2020 delivery date for the template of the rating plan to member companies is expected.

Recoupment

North Carolina law allows carriers to cede to the Facility any eligible risks. While the Facility establishes actuarially sound rates for private passenger auto “other-than-clean” risks (except that no profit is included), the rates for “clean risks” are statutorily capped at the voluntary rate level, which has historically been inadequate to pay the losses and expenses of the clean risks ceded to the Facility. The shortfall between what this group pays and what it should pay is made up through the statutorily authorized clean risk recoupment surcharge applied to the liability premiums of all, and only, private passenger non-fleet policies.

North Carolina law also allows the Facility to recoup operating losses through the loss recoupment surcharge. This surcharge may be applied to either nonfleet private passenger auto policies or commercial auto policies liability premiums to recoup prior operating losses on those separate lines of business.

Both clean risk and loss recoupment surcharges are reviewed quarterly and adjusted as deemed appropriate and necessary.

Private Passenger Auto

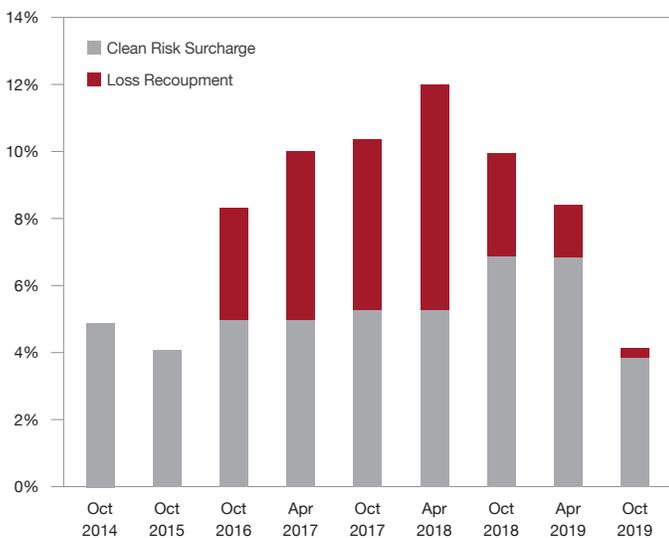
In June 2018, the Board of Governors implemented a new clean risk recoupment surcharge of 6.82% (before inclusion of agent compensation) and a private passenger auto loss recoupment surcharge of 3.06% (before inclusion of agent compensation), applicable to all new and renewal private passenger auto policies becoming effective on and after October 1, 2018, through March 31, 2019.

In December 2018, the Board of Governors authorized the continuance of the clean risk recoupment surcharge of 6.82% (before inclusion of agent compensation) and decreased the private passenger auto loss recoupment surcharge to 1.55% (before inclusion of agent compensation), which became applicable to all new and renewal private passenger policies effective on and after April 1, 2019, through September 30, 2019. For the current fiscal year through June 2019, income from clean risk surcharges has generated approximately \$202 million, and income from these private passenger auto loss surcharges has generated approximately \$72 million.

In June 2019, the Board of Governors approved lower surcharges for both private passenger clean risk recoupment (3.84% before inclusion of agent compensation) and loss recoupment (0.28% before inclusion of agent compensation), applicable to all new and renewal private passenger auto policies becoming effective on and after October 1, 2019, through March 31, 2020.

To simplify the programming requirements for the member companies, the Facility continues to require companies to report the private passenger auto clean risk and loss recoupments on a combined basis, saving expense and effort for all private passenger carriers in the state.

**Private Passenger Auto
Clean Risk Surcharge and Loss Recoupment**



Commercial Auto

In October 2017, the Board of Governors authorized the implementation of a loss recoupment surcharge for all new and renewal commercial auto policies effective on or after October 1, 2018, through September 30, 2019. In June 2018, before that surcharge became effective, the surcharge amount was lowered to 7.07% (before inclusion of agent compensation). As a reminder, the most recent prior commercial auto loss recoupment was 30 years ago in 1988.

The Board of Governors reviewed all relevant and updated recoupment data in June 2019. The Board approved the continuation of the 7.07% (before inclusion of agent compensation) commercial auto loss recoupment through September 30, 2020.

Compliance Activity

Our compliance staff's focus is on compliance with statutes, rules and regulations, as well as eligibility for ceded coverage and reimbursement, as part of our responsibility to ensure that the Facility collects the right premium and pays the right losses. In the various types of audits performed by the compliance staff, member company files are reviewed for, among other items, proper reporting of premiums and losses, claims handling, proper application of underwriting rules, eligibility, rating and recoupment. The compliance staff also performs audits on non-ceding companies to ensure that recoupment amounts are correctly determined and collected.

With the recent retirement of Jannet Barnes, we decided to take this opportunity to combine the compliance teams under one leader. Tom Burns, who has over 30 years of industry experience and joined the Facility in 2018 as Director of Auto Operations, now has responsibility for all three compliance disciplines. With Tom now leading our private passenger auto, claims and commercial auto teams, we fully expect that our compliance programs will become more focused and cohesive. With this consolidation of leadership, member companies can continue to expect increased teamwork, partnership and accountability.

Legislative Changes

The Facility was created by the Legislature in 1973 and replaced an Assigned Risk Auto Plan. At that time, there was a perceived stigma of being included in a bad risk pool, so this new mechanism enabled drivers to select the company of their choice. The legislature has made alterations over time to address changing conditions in the marketplace.

The Facility is often asked to provide information to various groups that wish to study these complex matters. While we do not lobby for any one position, we are more than happy to be included in the discussion and to contribute suggestions that, it is hoped, lead to more complete solutions with the fewest unintended consequences.

As of the time of publication, there were no bills ratified that materially impacted the Reinsurance Facility.

Conclusion

This was a very good year at the Facility, one in which a great deal was achieved with the assistance and support of our member companies. Our most notable success is undoubtedly reflected in the improvement in members' equity. Yes, of course, there is more to do. We still have our challenges, with commercial auto leading that list and remaining a primary focus.

As we look to the future, the industry will remain dynamic as it evolves and becomes even more complex. This necessitates that staff continue to evolve and work closely with our member companies to meet our responsibilities. This will also drive us to keep leveraging technology to further increase our efficiency and effectiveness.

As always, I do offer my sincere appreciation and gratitude to the Board of Governors, the committees, member companies and Facility staff for their time, efforts and guidance. Together, we can continue to accomplish much.

Terry F. Collins
Chief Operating Officer, Reinsurance Facility

Shared Services

Finance



Edith Davis
Chief Financial Officer

Net Operating Results

The net operating losses in both private passenger and other than private passenger (commercial) business in the Facility have continued over the report year, but not at near the pace of the recent past. Those losses have totaled \$42.6 million for the fiscal year to date as of June 30, 2019, compared to losses of \$112.9 million and \$166.9 million for the same periods in 2018 and 2017, respectively, and reflect an improvement of \$70.3 million over the prior period. As of June 30, 2019, the members' equity stood at a deficit of -\$134.6 million and consisted of -\$32.7 million for private passenger business and -\$101.9 million for other than private passenger business. The \$126.4 million reduction in the deficit since June 30, 2018, was largely driven by the implementation of loss recoupments on private passenger policies effective on or after October 1, 2016, and commercial auto policies effective on or after October 1, 2018.

For the fiscal year to date as of June 30, 2019, the loss recoupments generated about \$108 million of revenue to offset a portion of past private passenger and commercial losses. Unlike clean risk recoupment, loss recoupment funds are reported as a credit directly to members' equity, rather than being included in the determination of an operating gain or loss. Additional revenue is anticipated from loss recoupments to become effective on October 1, 2019, on both private passenger and commercial policies.

Investments

The Facility's investment account has certainly benefited from the additional revenue from loss recoupments, generating significant contributions back into the account after several years of significant withdrawals. Those deposits have contributed to the increase of nearly \$151 million in the book value of the Facility's portfolio, from approximately \$718 million to about \$869 million over the 12 months ending June 30, 2019. As of that date, the market value of the account was \$898 million, reflecting a net unrealized gain of about \$23 million. At the end of the last fiscal year ended September 30, 2018, the Facility recorded \$1.5 million in "other than temporary impairment" of investments as the result of some minor repositioning of the portfolio to take advantage of rising rates. The market continued to improve in 2019, and the portfolio returned about 6.86% over the 12 months ending June 30, 2019, which outperformed the benchmark by 19 basis points over that period. The chart included in this report reflects the portfolio's performance compared to the benchmark for the 12 months ending at the respective periods.

Administrative Expenses

The Facility's administrative expenses totaled \$6.9 million during calendar year 2018, which represented an increase of 7% from the prior year and approximately 95% of the approved budget for the respective period. The table and

chart on this page show a summary of the direct and allocated expenses for the prior two years and the first half of 2019. Though the Facility finished the year under budget, significant legal and advisory expenses and the onboarding of additional staff were the main drivers of the expense increase.

Audit

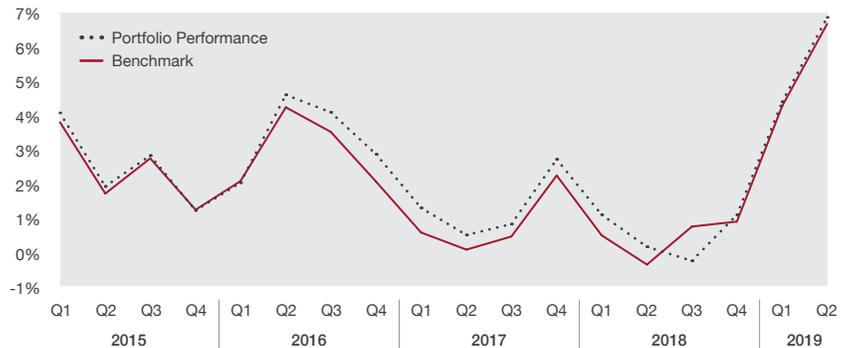
Johnson Lambert performed the annual audit of the fiscal year ended September 30, 2018, and presented its report to the Audit Committee in February 2019. The audit firm issued a clean opinion on the Facility's audited financial statements and conducted the required communications to the Committee, noting there were no misstatements or internal control weaknesses identified during the audit, and that the significant accounting policies had been consistently applied during the current year. An excerpt of those audited financial statements is included in this report.

Other Initiatives

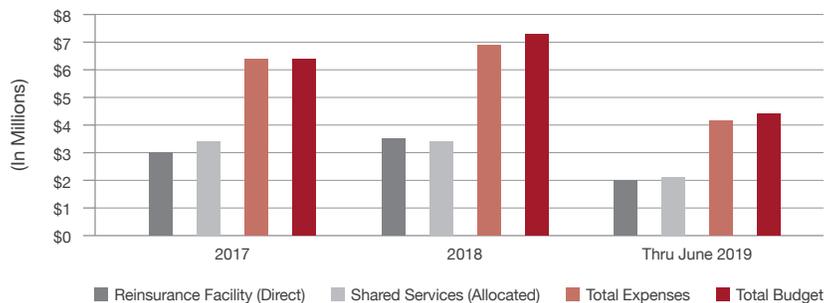
Organizational risk management initiatives included the Facility, in conjunction with its sister organizations, focusing a heightened awareness on security, training and financial controls and reviewing and updating business insurance coverages. A new invoice and document portal is in the works and should be placed into production in 2020, improving access and customer service to our member companies, and analysis has begun for the replacement of several aging key systems in coming years.

It's been another very busy year. We will continue to look for ways to modernize our processes and systems while remaining cost effective to our stakeholders. We thank our staff, the Board, committee members and counsel for all of their support throughout the year—it is truly appreciated.

Investment Portfolio Performance—Annualized Total Returns vs. Benchmark



Administrative Expenses



Administrative Expenses	2017	2018	Thru June 2019
Reinsurance Facility (Direct)	\$ 3,031,061	\$ 3,474,796	\$ 2,041,540
Shared Services (Allocated)	\$ 3,402,964	\$ 3,425,471	\$ 2,129,255
Total Expenses	\$ 6,434,025	\$ 6,900,267	\$ 4,170,795
Total Budget	\$ 6,384,257	\$ 7,276,040	\$ 4,400,710

Information Services



Shelley Chandler
Chief Information Officer

Information Services continues to leverage technology advances to enhance our business processes and to fulfill the needs of our customers. Through daily operations and project work, it is our duty not only to support the organization, but also to introduce innovative strategies that guarantee robust systems and applications, and allow for expansion in areas where progress is desired.

Technology is only possible with the dedication and heart of our associates. We are proud to announce that in 2019, Faye Helms, IT Service Desk Analyst, has celebrated 60 years with our organizations. She is an asset to our Service Desk and always has a smile to brighten her customer's day.



Faye Helms
IT Service Desk Analyst

In 2019, we made significant staffing changes to enable us to focus on technology solutions and protect our environment from increasing threats. We now have a resource dedicated to our security posture. Frank Lonnett moved into the role of Director, IT Information and Data Security. Frank has worked with the Organizations for nine years in the Director, Infrastructure and Operations role, and therefore has a unique perspective on our new security role. In addition to training and transitioning the Infrastructure duties to a

replacement, Frank has been able to move our Security program forward. We continue to evaluate new legislation surrounding privacy and cybersecurity to ensure that we are meeting obligations when necessary and working to ensure our security posture will help us be prepared for future legislation.

We continue to adhere to the belief that the best defense against security risks is employee training. We provide monthly security training and routine phishing simulations to teach employees how to defend against common and emerging threats and how to protect the data they are entrusted with to execute their jobs. We also continue to harden and isolate our systems by upgrading perimeter security and limiting system permissions to only those users that require access to perform their job duties. In order to predict and prevent security breaches, we continued to work with professional security experts to conduct regular risk assessments that alert us to any risks (or threats) in advance so that we can remediate promptly and appropriately. In addition to internal testing, we also began conducting risk assessments for our third-party providers to ensure all the data we work with is safe.

A significant amount of effort is spent resolving daily issues that impact productivity and that keep essential processes moving forward. Extensive planning goes into resource allocation for IT staff; however, we remain flexible in our commitment to provide our customers with the highest level of efficiency. From an infrastructure standpoint, we've implemented projects that continually improve our environment. In 2019, we continue to upgrade hardware, operating systems, and modernizing Enterprise Services to current releases and versions. The infrastructure group also continues to refine our disaster recovery strategy to ensure the best outcomes when needed. While we have never experienced a major business interruption, it is important that we are prepared to detect and respond to potential events.

Project work also contributes to our goal of promoting efficiency through our organization and for our customers. The Software Development group works diligently to create software products to be used internally as well as by our external customers. In 2019, this group worked to select and implement an analytics tool to help understand better the business trends and outliers that will help the Reinsurance Facility become more efficient and effective.

We look forward to continuing to expand our capabilities for enhancing our customer experience through technology while ensuring security of the data we protect.

Human Resources and Facility Services



Vicki Godbold
Chief Human Resources Officer

"Alone we can do so little, together we can do so much."—Helen Keller

Our Human Resources is the strategic and comprehensive approach committed to our Organization's most valued assets—our people. Facility Services provide a secure and comfortable work environment along with mail services and receptionist services. This past year, we added three additional outdoor cameras. In HR, we contracted an outside vendor to conduct a Compensation Audit as our goal is to pay at market, and the audit concluded we are at 103% of the 50th percentile so we are paying "market" rate for our positions. We also added three new associates.

Our Wellness Program consists of

- a partnership with WakeMed Hospital,
- a partnership with YogaBlyss,
- a partnership with the NC Prevention Partners,
- annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10k steps a day,
- flu shots provided for associates on-site and
- Certification in First Aid, CPR and AED, for a third of our workforce through the American Red Cross.

On-site training this year consisted of wellness seminars, weekly on-site yoga classes, management on-site training and off-site training for new management staff. Community Service involvement by our associates this year included the United Way and various charities of the associate's choice.

NCRF Management Staff



Tom Burns
Director, Auto Operations



Katie Lovelace
Manager, Planning & Analysis



Andy Montano
Manager, Automobile



Donna Kallianos
Manager, Claims

Balance Sheet

As of	June 30, 2019	June 30, 2018
Assets		
Cash (Checking Account)	\$16,768,187	\$13,420,895
Cash Restricted (Including Escrow)	-	-
Investments	864,915,542	717,844,418
Accounts Receivable	35,674,149	38,807,069
Accrued Interest Receivable	6,119,847	4,300,734
Other Assets	92	92
Total Assets	\$923,477,816	\$774,373,208
Liabilities & Members' Equity		
Accounts Payable	\$34,509,605	\$28,489,287
Loss Reserves	669,415,665	659,929,573
Unearned Premium Reserves	352,954,846	346,630,159
Provision for Premium Refunds	-	-
Other Liabilities	1,206,876	211,004
Total Liabilities	\$1,058,086,992	\$1,035,260,022
Members' Equity	(134,609,176)	(260,886,814)
Total Liabilities & Members' Equity	\$923,477,816	\$774,373,208

Income Statement

Fiscal Year through	June 30, 2019	June 30, 2018
Income		
Earned Premiums	\$809,859,992	\$792,937,296
Clean Risk Recoupment	202,211,743	150,917,370
Investment Income	20,726,785	14,653,028
Membership Fee Income	\$55,100	\$54,700
Other Income	93,662	119,572
Total Income	\$1,032,947,282	\$958,681,966
Expenses		
Losses Incurred	\$746,768,472	\$738,223,961
Ceding & Claims Expenses	307,866,451	328,461,854
Premiums Escrowed	-	-
Other Underwriting Deductions	674	(236,826)
Salaries & Administration Expenses	2,226,663	1,727,470
Outside Services Expenses	2,232,234	2,042,617
Other Operating Expenses	1,826,676	1,328,135
Total Expenses	\$1,060,921,170	\$1,071,547,210
Net Income/(Loss) Before Loss Recoupments	\$ (27,973,888)	\$ (112,865,244)
Loss Recoupments	108,134,773	162,130,099
Net Income/(Loss) After Loss Recoupments	\$80,160,885	\$49,264,855

Special Purpose Balance Sheet

Year Ending	Sept 30, 2018	Sept 30, 2017
Assets		
Cash and Short-Term Investments	\$77,288,888	\$57,157,647
Investments, at Amortized Cost	681,006,722	588,675,210
Accrued Interest Receivable	4,434,154	4,001,126
Settlements Receivable From Member Companies	55,950,611	40,067,516
Total Assets	\$818,680,375	\$689,901,499
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves		
• In Course of Settlement	\$473,880,341	\$481,599,441
• Incurred But Not Reported	182,809,209	154,908,099
Total Loss and Loss Adjustment Expense Reserves	656,689,550	636,507,540
Unearned Premium Reserves	356,317,040	333,018,787
Advance Clean Risk Subsidies	4,832,146	3,706,820
Premium Deficiency Reserve	-	235,493
Settlements Payable to Member Companies	19,981,510	29,999,261
Other Liabilities	463,009	292,087
Total Liabilities	\$1,038,283,255	\$1,003,759,988
Members' Equity	(219,602,880)	(313,858,489)
Total Liabilities and Members' Equity	\$818,680,375	\$689,901,499

Special Purpose Statement of Operations

Year Ending	Sept 30, 2018	Sept 30, 2017
Premiums Earned	\$1,062,882,244	\$1,006,836,403
Clean Risk Subsidies	204,352,165	172,409,982
Total Underwriting Income	1,267,234,409	1,179,246,385
Losses Incurred	968,904,610	991,034,336
Ceding Expense Allowances	281,371,055	264,468,343
Claims Expense Allowances	160,991,616	136,513,340
Change in Premium Deficiency Reserve	(235,493)	202,887
Total Underwriting Expenses	1,411,031,788	1,392,218,906
Net Underwriting Loss	(143,797,379)	(212,972,521)
Other Income (Expense)		
Net Investment Income	15,937,995	16,691,116
Net Realized Investment Gains	30,170	3,199,820
Late Premium Charges and Penalties	114,724	178,863
Membership Fees	54,700	54,300
General and Administrative Expense	(5,846,249)	(5,571,993)
Total Other Income – Net	10,291,340	14,552,106
Net Operating Loss	\$ (133,506,039)	\$ (198,420,415)

NCRF

North Carolina Reinsurance Facility

2910 Sumner Blvd. Raleigh, NC 27616 www.ncrb.org/ncrf

