



MINUTES OF THE FORTY-NINTH ANNUAL MEETING OF THE NORTH CAROLINA
REINSURANCE FACILITY HELD BOTH IN PERSON AND VIRTUALLY ON
OCTOBER 12, 2022

COMPANY MEMBERS PRESENT

Accident Fund Insurance Company of America
Allstate Insurance Company
 Allstate Indemnity Company
 Allstate Northbrook Indemnity Company
 Allstate Property & Casualty Insurance Company
 Allstate Vehicle and Property Insurance Company
Integon General Insurance Corporation
Direct Insurance Company
Integon Casualty Insurance Company
Integon Indemnity Corporation
Integon National Insurance Company
Integon Preferred Insurance Company
National General Insurance Online, Inc.
New South Insurance Company
Amica Mutual Insurance Company
Atlantic Casualty Insurance Company
Clearcover Insurance Company
Discovery Insurance Company

Farmers Property & Casualty Insurance Company
 Economy Fire & Casualty Company
 Economy Preferred Insurance Company
 Economy Premier Assurance Company
 Farmers Casualty Insurance Company
 Farmers Direct Property & Casualty Insurance Co.
 Metropolitan General Insurance Company
Frederick Mutual Insurance Company
Government Employees Insurance Company
 GEICO General Insurance Company
Greenville Casualty Insurance Company
Horace Mann insurance Companies
Kemper Independence Insurance Company
Liberty Mutual Insurance Company
 First Liberty Insurance Corporation
 Liberty Insurance Corporation
 Liberty Mutual Fire Insurance Company

REPRESENTED BY

Allen Hope *
Patrick Weil
Rick Pierce
Addam Sentz
Rob Owen

Andrew Connors *
Robbie Strickland *
Danny Olenic *
Stuart Lindley
Trey Means
Kim Parker
Sarah Shaw *

Jill Showalter *
Jason Wallace *

Dean Kruger *
Brad Melton
Nick Sizemore
Mark Ford

LM Insurance Corporation	
Nationwide Mutual Insurance Company	Scott Howard
Freedom Specialty Insurance Company	Patrick Knutson
Nationwide Affinity Insurance Company of America	Robyn Lay *
Nationwide Mutual Fire Insurance Company	Lisa Martin *
Nationwide Property & Casualty Insurance Company	
North Carolina Farm Bureau Mutual Insurance Company	Roger Batdorff *
Farm Bureau Insurance Company of North Carolina	
Pie Casualty Insurance Company	Jereme Stout
Sentry Insurance Company	Reva Tevaarwerk *
Dairyland Insurance Company	
Dairyland National Insurance Company	
Sentry Casualty Company	
Sentry Select Insurance Company	
Viking Insurance Company of Wisconsin	
Stonewood Insurance Company	Heather Hall *
The Hartford Casualty Insurance Company	James Dolan *
Hartford Accident & Indemnity Company	Eric Mize
Hartford Fire Insurance Company	Jennifer Suarez *
Hartford Insurance Company of Illinois	
Hartford Insurance Company of Southeast	
Hartford Insurance Company of the Midwest	
Hartford Underwriters Insurance Company	
Nutmeg Insurance Company	
Property & Casualty Insurance Company of Hartford	
Sentinel Insurance Company Ltd	
Trumbull Insurance Company	
Twin City Fire Insurance Company	
The Travelers Indemnity Company	Molly Bowtruczky
Farmington Casualty Company	
Select Insurance Company	
Standard Fire Insurance Company	
The Automobile Insurance Company of Hartford, CT	
The Charter Oak Fire Insurance Company	
The Phoenix Insurance 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 of Connecticut	
Travelers Casualty Insurance Company of America	
Travelers Commercial Casualty Company	
Travelers Commercial 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
USAA Casualty Insurance Company
Garrison Property & Casualty Insurance Company
United Services Automobile Association
USAA General Indemnity Company

OTHERS PRESENT

Auto Able Insurance Company

Insurance Services Office/Verisk Analytics

Litaker Insurance
Milliman, Inc.
Mount Castle Insurance
North Carolina Department of Insurance

Paschal Law, PA
Public Member – NCRF Board of Governors
Special Guest
Twin City Insurance Agency
Young Moore and Henderson, P.A.

Wellington Management Company

Staff

Ben Drawert *

REPRESENTED BY

Jeff Butler
Miles Butler
Paul Erickson *
Sandee Perfetto
Jared Smollik
Justin Litaker
Paul Anderson
Andy Calvert *
Fred Fuller
Jackie Obusek
Robert Paschal
Dr. Mark R. Royster, Sr.
Ray Evans
Lesa Williams
Brian Beverly
Mickey Spivey
Sydney Plummer
Chris Holleman
Eric Tanaka
Sonya Anthony *
Jennifer Bernhardt *
Joanna Biliouris
Kevin Braswell
Terry Brown *
Pam Bruckschen *
Tom Burns
Linda Burrell *
Shelley Chandler
Jarred Chappell
Terry Collins
Casey Cramer *
Edith Davis
Linda Davis
Vicki Godbold
Donna Guin *
Bart Iannetta *
Keri Johnson
Neill McDowell *
Felicia Mitchell *

Andy Montano
Karen Price *
Garry Rogers *
Debbie Taylor *
Amy Tart
Jodi Webb
Rebecca Williams
Erin Zeller *

* Attended virtually

One hundred and sixty-eight (168) other companies were represented by proxy.

The meeting convened as scheduled, Mr. Pierce 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. Housekeeping and Recognition

After a brief sharing of meeting logistics, Mr. Collins recognized the members of the Board of Governors, noting member company representatives, agent members and the three non-voting members of the Board. He also shared that the diverse composition allows for more balanced view points and sounder decisions. Mr. Collins also reminded the attendees that the Board members are volunteers and are conscientious in making decisions that are appropriate for the Facility.

2. General Manager

Copies of the 2022 Annual Report for the fiscal year ended September 30, 2022 were distributed, a copy of which is attached. Ms. Biliouris highlighted the report and the members of management staff while offering general observations from the past year. Ms. Biliouris then reported on progress made towards the current year's goals.

Ms. Biliouris then recapped some changes and opportunities in 2022, including Mr. Evans' retirement and new members of the Facility senior leadership team, transition to a hybrid work environment, and developing new relationships with the Department of Insurance. She reported that the organizations continue to assess the hybrid environment as well as space and staffing needs in addition to reviewing processes and policies for continued effectiveness.

Ms. Biliouris advised on long term considerations, including the economy, changes in driving habits, inflation, retaining and recruiting staff, and technology and cyber risk enhancements. Ms. Biliouris shared that the legislature will meet for a long session in 2023 and the organizations will monitor the progress of any bills of interest. Ms. Biliouris then thanked the members of staff, counsel, consultants, and committee members for their contributions.

4. Chairman's Comments

Mr. Pierce commented on the vital role of the Facility and recognized the diligence of Facility staff in conducting a complex business. Mr. Pierce also noted that the Facility's efforts to reduce the members' equity have been very successful over the last several years. Mr. Pierce addressed the members of the Board of Governors and thanked them for their expertise and commitment to the intricate matters of the Facility.

5. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Terry F. Collins

Chief Operating Officer

North Carolina Reinsurance Facility

TFC/klj

Enclosure

RF-22-12



2022
ANNUAL REPORT

NCRF

NORTH CAROLINA
REINSURANCE
FACILITY



Reinsurance Facility

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General Organizational Information

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

Management Contacts

NCRF Staff

Joanna Biliouris	General Manager
919-582-1050	jb@ncrb.org
Terry Collins	Chief Operating Officer
919-582-1076	tfc@ncrb.org
Tom Burns	Director, Auto Operations
919-719-3033	tfb@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

2022 Annual Meeting

The annual meeting of member companies of the North Carolina Reinsurance Facility will be held on October 12, 2022.



General Manager's Report



Joanna Biliouris
General Manager

When reflecting on this year, for me, it can be summed up in one word—transition. This year was all about transition, transitioning to a hybrid work schedule, which included returning to the office two days a week; transitioning to a new role as General Manager of the Reinsurance Facility; transitioning to updated technology to support hybrid meetings; and transitioning to a new environment where our lives, both personal and professional, were no longer consumed with the pandemic (at least not totally). It is a time when we can reexamine our lives and the way we work while moving forward with a “new normal.”

The organizations implemented a hybrid work schedule in March of this year, with associates choosing two days per week to work in the office with the other three days working remotely. It was a challenge at first, with many employees reticent to the idea of heading back into commuter traffic, pulling out those business casual clothes from the back of the closet, and interacting with teammates face to face again. It took time for everyone to find their groove and settle into a routine; however, just as our associates rose to the occasion when the pandemic hit, they did it again as we navigate away from it. Our hybrid work environment has been successful, balancing the best of both worlds, in the office and in a remote setting. Collaboration is increasing, in-person meetings with team members have returned, and onboarding new staff with hands-on training are all part of work life again, and I can say, I am excited by the possibilities.

My first few months as General Manager have been a time of learning, listening, and understanding the needs of our people and our members. In addition to our associates and member companies, Facility activity affects all drivers across the state and the trade groups representing the automobile industry. As such, the Facility has been a topic of interest with some industry groups and members of the legislature. This interest has enabled us to do some education about the role and purpose of the Facility in North Carolina, with Terry and his team outlining the statutory responsibilities and role of the organization. As the North Carolina Legislature embarks on their long session next year, we will likely have more opportunities to share information on the vital role the Facility serves in the regulatory framework of the state.

The Facility's goals remain consistent.

- Reduce members' equity deficit.
- Increase the effectiveness and efficiency of compliance.
- Expand our data acquisition and analysis capabilities.
- Implement enhancements to the commercial auto program.
- Foster team building to support succession planning and cross functional knowledge sharing.

Whereas these goals and objectives are constant, the manner in which the organization fulfills them continuously evolves through improving technology, expanding of knowledge with our associates, identifying and implementing process improvements, modifying filing strategies, and gaining valuable insights from data analysis. In the following pages of this Annual Report, efforts to fulfill these goals are shared in more detail.

As we look forward, it will be interesting to monitor how our changing economic environment along with the deteriorating loss experience in both personal and commercial auto affect Facility results. We have not seen any reduction in inflation, supply chain disruptions, labor shortages, and distracted driving habits, all of which continue to drive increased claim severity. All of these factors strain our members equity position and our investment strategies, requiring us to monitor closely and address fluctuations swiftly. Whatever the future holds, the Facility staff is poised to respond and adjust to these demands and their impact to the automobile market.

In closing, I would like to recognize the many people who contribute significantly to the success of the Facility: the Chair of the Reinsurance Facility Board of Governors, Rick Pierce, for his leadership and guidance to me and Facility staff; the Board and committee members who support our activities and efforts; and our legal partners at Young Moore, who provide invaluable counsel, guidance, and support in all our endeavors. Our CFO, Edith Davis, is vital to the effective management of the Facility's revenues and the stability of its investments. The Facility leadership, Terry Collins and Tom Burns guide all aspects of the Facility and make it look easy (and I assure you it is not). Thanks to all of you for your contributions to the organization.

Message from the Chairman

2021 and 2022 have certainly been years of change. Some may call today a “new normal,” but I think most of us realize that with the speed and frequency of change these days, “normal” may be a word we use far less frequently than in times past.

My term as Chairman of the North Carolina Reinsurance Facility Board of Governors this past year has been a time of adapting as well as learning. Of course, we have all had to adapt to a new way of work, and the Facility is no exception. Virtual meetings replacing physical handshakes and face-to-face collaboration get the job done, but clearly many of us feel a true sense of loss in camaraderie. However, the Facility leaders have planned and adapted well, and they, like many, have worked to find a “sweet spot” of a hybrid work and meeting environment that is effective, yet also efficient. All that said, beginning with the 2022 annual meeting, we can once again meet in person (with a virtual option) because meeting face to face increases active participation and the discussions that lead to even better decisions for agents, companies and North Carolina drivers.

My “learning” this past year was a confirmation of the importance the Facility plays in the lives of our North Carolina citizens, vehicle owners, and even those visitors to our great state traveling our roads. Insured operators and an ability to obtain insurance is a critical part of our economy and the well-being of all North Carolinians and visitors. The facility plays a key role in this, and I applaud our legislature in their thoughtful leadership for creating a unique, effective market of last resort for mandatory auto liability insurance. While much different from assigned risk plans and residual markets in other states, our Facility works and has helped create among the lowest auto liability insurance rates in the country for NC drivers.

Difficult and complex work with setting appropriate prices is always a key part of the Facility operations to protect members' equity and minimize recoupments. This year was no exception.

Finally, one more key component of my “learning” has been my work with the incredible staff at the NCRF. The knowledge, professionalism, approachability, and work ethic are exceptional. It has been my honor and privilege to chair this board over the past year on behalf of Integon Indemnity, an Allstate Company. Many thanks to all who lead, work, and support this organization.

Sincerely,

Rick Pierce, CPCU, AAI
Integon Indemnity Insurance Corporation

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 virtual meetings of the Board were held during the year.

Members	Representative	Agent Members	Representative
Atlantic Casualty Insurance Company	Robbie Strickland	Agent at Large	Larry Brown, Jr.
GEICO Indemnity Company	Jason Wallace	Agent at Large	Justin Litaker
Greenville Casualty Insurance Company	Dean Kruger	Auto Insurance Agents of North Carolina	Jeffrey W. Butler
Integon Indemnity Corporation*	Rick Pierce	Independent Insurance Agents of NC	Andy Calvert
Nationwide Mutual Insurance Company	Patrick Knutson	Independent Insurance Agents of NC	Lesa Williams
NC Farm Bureau Mutual Insurance Company	Roger N. Batdorff		
The Travelers Indemnity Company	Wendell Ridley		
		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*	Mary Jannino
Nationwide Mutual Insurance Company	Jennifer Sloey
NC Farm Bureau Mutual Insurance Company	Bill Poland
Pennsylvania National Mutual Casualty Insurance Company	James Sizemore
State Farm Mutual Automobile Insurance Company	Todd Sivills
The Travelers Indemnity Company	Jennifer Baurle

Investment Committee

Members	Representative
Allstate Insurance Company	Ronald Pullie
Nationwide Mutual Insurance Company*	Scott Howard
State Farm Mutual Automobile Insurance Company	Robert Stephan

Rating Committee

Members	Representative
Atlantic Casualty Insurance Company*	Mark Caughron
Integon Indemnity Corporation	Addam Sentz
Nationwide Mutual Insurance Company	John-Michael Gillivan
NC Farm Bureau Mutual Insurance Company	Roger N. Batdorff
Stonewood Insurance Company	Eileen Muller
The Travelers Indemnity Company	Aid Mehmedovic

Task Force on Expense Allowances

Members	Representative
Allstate Insurance Company	Patrick Weil
GEICO Indemnity Company	Matthew Storrs
Nationwide Mutual Insurance Company*	Patrick Knutson
Sentry Insurance A Mutual Company	Reva Tevaarwerk
State Farm Mutual Automobile Ins Company	Todd Sivills
Universal Insurance Company	Jason Ivers
Agent	Justin Litaker

Task Force on Recoupment

Members	Representative
Integon Indemnity Corporation	Rick Pierce
Nationwide Mutual Insurance Company	Patrick Knutson
NC Farm Bureau Mutual Insurance Company	Roger N. Batdorff
Progressive Casualty Insurance Company	Kevin McGee
State Farm Mutual Automobile Insurance Company*	Todd Sivills
Universal Insurance Company	Jason Ivers
Agent	Lesa Williams

Claims Committee

Members	Representative
Allstate Insurance Company	Marcus Vann
GEICO Indemnity Company	Austin Fernandez
Hartford Accident & Indemnity Company	Bill Teich
Nationwide Mutual Insurance Company	Jarrod Corbacio
NC Farm Bureau Mutual Insurance Company	Bryan Crook
State Farm Mutual Automobile Insurance Company	Clint Green
The Travelers Indemnity Company*	Ryan Pirozzi
United Services Automobile Association	Michael Cox

*Chair

Management Report



Terry Collins
Chief Operating Officer

I celebrated my five-year anniversary with the North Carolina Reinsurance Facility this past July. Yes, it seems like only yesterday that I started, as the time has truly flown by. When you think about it, you never know exactly what you will face when you accept a new job. Even after 30 years in the insurance industry, I never imagined just how challenging this role could be and how much I would learn. Every day brings new opportunities and challenges, making it impossible to be bored.

The job of the Facility actually sounds rather simple: adhere to the governing statutes and ensure that the Facility receives the proper premium from and pays the proper losses on eligible risks. From the outside looking in, my hope is we appear as the proverbial “duck on a pond” easily gliding along the surface of the pond, while furiously paddling below. I can assure you that we are paddling hard each and every day.

I feel this would be an appropriate time in my tenure to look into the rear-view mirror and reflect upon the last five years. When I look back, I am amazed at the changes and accomplishments that have taken place in the Facility. During this time, we witnessed a strong rebound in results while enhancing our knowledge and capabilities to better support our member companies.

- Members’ equity deficit has been reduced from -\$325 million in June 2017 to the current June 2022 deficit of -\$106 million, primarily through a mix of rate revisions, recoupment, and meticulous compliance auditing.
- Audit Hub, our in-house compliance auditing system, went from a conceptual discussion to implementation in less than three years, dramatically improving the efficiency and effectiveness of the compliance auditing team.
- Eight professionals with well over 100 years of combined insurance industry experience were hired and blended with the existing pool of knowledgeable, tenured associates, providing a strong combination of industry and Facility knowledge and supporting succession planning.
- Multiple rate and rule actions employed in commercial auto have paid strong dividends through improving rate adequacy and rule clarity, helping deliver improvement in this line.

- Heightened analytical capabilities have provided a better view of our results and trends and continue to grow through a combination of Tableau usage, data calls, and traditional mainframe reports.

Operating Results

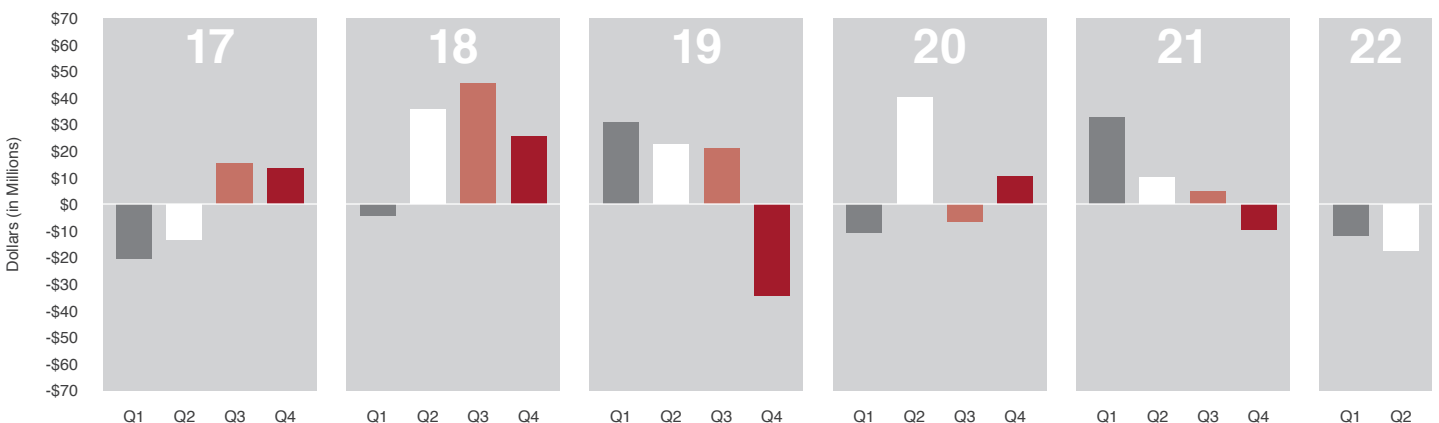
The Board of Governors, committees, and industry periodicals have been discussing a shortage of skilled and unskilled labor, logistical bottlenecks stretching out product delivery times, more complex and better equipped vehicles, higher jury awards, greater medical capabilities and costs, more cars driving more miles, and simply the lack of necessary products or parts for several years. We now have inflation on top of those issues. And, inflation does not appear to be going away anytime soon.

The Facility has not been, and will not be, immune to the pressures exerted by the rise of inflation and a mix of COVID-driven costs as mentioned above. During this fiscal year, our operating results experienced an ongoing increase in paid losses and loss reserves that was ultimately reflected in the deterioration of members’ equity. These external headwinds will almost certainly continue to impact the rate adequacy of ceded risks in the coming year. Since there is no simple or easy method to overcome the impact of inflation, the Facility must remain diligent and leverage our available actions and past learnings.

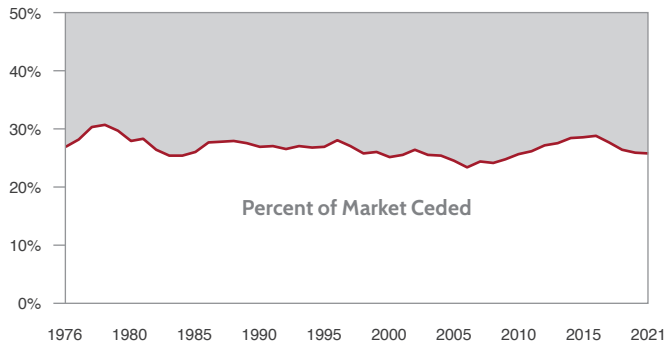
After making strong gains over the last several years, our members’ equity deficit deteriorated to -\$106.1 million as of June 2022 from the -\$71.4 million in June 2021. Private passenger auto drove the entire decline with its deficit increasing \$47.4 million from last June to stand at -\$82.0 million as of June 2022. Commercial auto delivered positive results with an improved members’ equity deficit of -\$24.1 million, which is the best level since 2015. A visual of the long-term quarterly net results of operations after recoupments is provided in the chart below.

Maintaining a sharp focus on members’ equity remains one of our highest priorities. Changes in this balance are monitored very closely by both staff and committees, while appropriate action is taken under the oversight of the Board of Governors and within the guidelines outlined in the governing statutes, including rate revisions where allowed, clean risk and/or loss recoupments, increased audits, and other actions.

Net Results of Operations (After Recoupments)



Share of NC Auto Liability Market Ceded by Calendar Year



Volume

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 2021 decreased for the fourth consecutive year and is at its lowest level since 2011.

While total cession volume is reasonably flat compared with prior years, there is a slight downward trend driven by private passenger auto. As of June 2022, total policies in force are at 1.17 million. Private passenger auto policies have been slowly declining since the summer of 2017, dropping over 200,000 policies during this time. Policies in force for the much smaller commercial auto line continue to hover in the 26,000 to 28,000 range.

Total written premium is fully expected to eclipse the \$1 billion mark by the end of the fiscal year, placing it in line with the premiums from the past two years. The premium split by line has shifted slightly, with private passenger auto contributing 86% and commercial auto 14%.

Rates, Rules, and Forms

Private Passenger Auto

Effective October 1, 2021:

The Facility did not implement an auto liability rate change on “clean risk” rates. The Facility did file and implement an average 8.0% rate increase for the “other-than-clean” liability rate level for automobiles. (“Other than-clean” liability rates are used for ceded business when an operator has two years or less driving experience or has SDIP points.) Bodily Injury, Property Damage, and Med Pay rates were each revised. The effective change for motorcycles was +8.4%.

Effective October 1, 2022:

Again, the Facility did not implement an auto liability rate change on “clean risk” rates. The Facility did file and implement an average 7.2% rate increase for the “other-than-clean” liability rate level for automobiles. The effective change for motorcycle rates is +7.3%.

Effective April 1, 2023:

The Facility Board approved and received approval from the Commissioner of Insurance for several rule changes pertaining to drivers with a learner’s permit, strengthening rating language in our private passenger auto manual, and eligible risks that are garaged out of state. These changes were communicated via Facility Circular RF-22-8 on June 16, 2022.

Commercial Auto

Effective April 1, 2022:

The Facility filed and implemented revised basic limits premium rates for liability insurance for trucks, tractors and trailers, auto dealers, zone-rated vehicles, and private passenger types not eligible for rating under the North Carolina Personal Auto Manual. Bodily injury and property damage liability increased limits factors for such coverages rated under the Facility’s Commercial Automobile Insurance Manual were also adjusted. This rate revision was for an average 8.7% increase.

Effective October 1, 2022:

The Facility filed and implemented revised basic limits premium rates for liability insurance for trucks, tractors and trailers, auto dealers, zone-rated vehicles, and private passenger types not eligible for rating under the North Carolina Personal Auto Manual. This rate revision was for an average 7.4% increase.

Ceded commercial auto policies began using Zip Code-defined territory rating effective October 1, 2022. This update will help keep the Facility in line with the market.

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 Rate Bureau private passenger auto manual 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

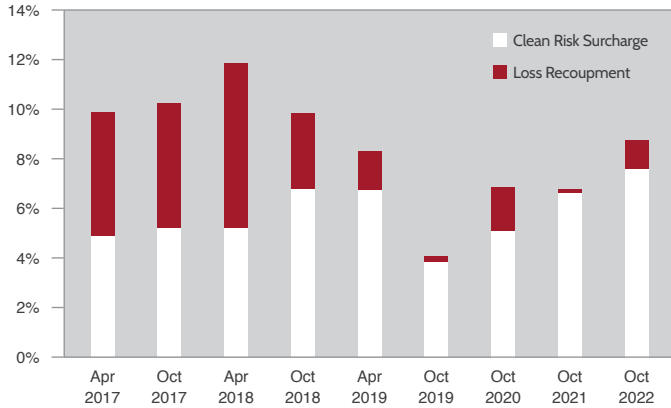
In June 2021, the Board of Governors approved a clean risk recoupment surcharge of 6.66% (before inclusion of agent compensation) and a private passenger auto loss recoupment surcharge of 0.16% (before inclusion of agent compensation), applicable to all new and renewal private passenger auto policies becoming effective on and after October 1, 2021, through September 30, 2022.

For the current fiscal year through June 2022, clean risk recoupment surcharges have generated revenue of approximately \$239 million, and private passenger auto loss recoupment surcharges have generated revenue of approximately \$6 million.

In June 2022, the Board of Governors approved an increased surcharge for private passenger clean risk recoupment (7.64% before inclusion of agent compensation) and private passenger loss recoupment (1.14% before inclusion of agent compensation), applicable to all new and renewal private passenger auto policies becoming effective on and after October 1, 2022, through September 30, 2023.

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



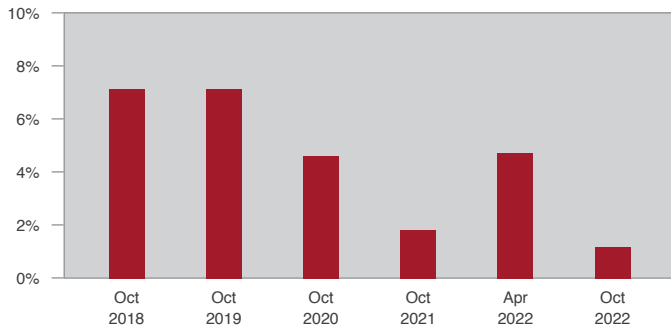
Commercial Auto

In June 2021, the Board of Governors approved a commercial auto loss recoupment of 1.81% (before inclusion of agent compensation) to apply to new and renewal commercial auto policies becoming effective on and after October 1, 2021, through March 30, 2022. During their December meeting, the Board reviewed all relevant and updated recoupment data and increased the commercial auto loss recoupment to 4.66% (before inclusion of agent compensation) for all policies becoming effective from April 1, 2022 through September 30, 2022.

Most recently in June 2022, the Board of Governors reduced the commercial auto loss recoupment to 1.17% (before inclusion of agent compensation). This new recoupment percentage applies to all new and renewal business becoming effective on and after October 1, 2022, and will run through September 30, 2023.

For the current fiscal year through June 2022, commercial loss recoupment surcharges have generated approximately \$20 million.

Commercial Auto
Loss Recoupment



Compliance activity

The Facility compliance team consists of 12 experienced analysts who partner with member companies on a daily basis. Their tenured focus is on compliance with statutes, rules, and regulations, especially eligibility and reimbursement. Our responsibility is to ensure that the Facility collects the right premium, reinsures eligible risks, and reimburses our carrier partners properly for paid losses. Member company files are reviewed individually for proper reporting of premiums and losses, claims handling, eligibility, rating, and recoupment.

The compliance staff also performs audits on voluntary policies to ensure that recoupment amounts are correctly calculated and collected.

Over the last year, our team has made upgrades to our technology, including a new audit system (Audit Hub), annual compliance plans, and audit processes. These changes have allowed our compliance team to become more efficient and organized, while still allowing us to keep our commitment to consistency and quality. We look forward to continuing our partnership with member companies while improving our teamwork, innovation, 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 this writing, there were several bills ratified since the distribution of the 2021 annual report that may impact the Reinsurance Facility.

SB 241—Modify Utility Vehicle Definition—Amended the definition of a modified utility vehicle, noting changes in engine size, length, speed, and necessary equipment.

SB 270—Insurance Technical Changes—Provided a 25-day period to gather reliable proof of eligibility.

SB 496—DOI Omnibus Bill—This bill replaced the terms “agent” and “broker” with the term “producer” in several statutes that pertain to the Facility and also clarified the agent members of the Board of Governors selected by the Commissioner of Insurance

HB 814—Neighborhood Occupantless Vehicles—Defined a neighborhood occupantless vehicle as a type of fully autonomous vehicle used to transport goods without a human occupant and authorized its operation on highways with certain restrictions and equipment requirements.

Conclusion

The work of the Facility is vital to the North Carolina marketplace. The stability supplied by the Facility is critical to ensure that liability insurance is available to the people of North Carolina. While recognizing the impact of the work the Facility does, the Facility team is driven by the chance to add value and make a difference.

As Joanna mentioned in her report, staff is back in the office in hybrid mode. For the Facility staff, the entire team is together two days each week. This is working quite well as it provides the needed opportunity for both in-person collaboration and relationship strengthening, along with the work-life balance we all crave. The team looks forward to another year of working with our member companies to support the auto liability insurance needs of our friends and neighbors.

As always, I wish to thank the Board of Governors, various committees, member companies, and Facility staff for their time, efforts, and guidance.

Stay safe,

Terry F. Collins
Chief Operating Officer, Reinsurance Facility

Shared Services

Finance



Edith Davis
Chief Financial Officer

The Facility continues to experience significant net operating losses (before recoupment) for both private passenger and commercial auto business, although the trend from last year has reversed and commercial auto has improved over the prior year and private passenger auto has deteriorated. These combined losses have totaled \$62.4 million fiscal year

to date as of June 30, 2022, compared to losses of \$41.5 million and \$54.5 million for the same periods in 2021 and 2020, respectively, and reflect a \$20.9 million increase in losses over the prior period.

As of June 30, 2022, the members' equity stood at a combined deficit of \$106.1 million and consisted of deficits of \$82 million for private passenger business and \$24.1 million for other than private passenger business. The \$34.7 million increase in the deficit since June 30, 2021, was driven by deterioration of \$47.4 million in the private passenger results, which was only partially offset by a \$12.7 million improvement in the commercial auto business. For the fiscal year to date as of June 30, 2022, the loss recoupments generated about \$22.9 million of revenue to offset portions of the 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 increased loss recoupment for commercial auto, which became effective on April 1, 2022, and increases in private passenger clean risk and loss recoupments, which will become effective on October 1, 2022.

Since the revenue from premiums and recoupments have been insufficient to cover the Facility's losses, net withdrawals from the investment account fiscal year to date as of June 30, 2021, totaled \$10.5 million to meet the monthly settlement obligations with member companies, most of this occurring since June 2022. The investment portfolio is comprised of high-quality fixed-income assets, and returned about -7.37% over the 12 months ending June 30, 2022, which outperformed the benchmark by 21 basis points over that period. Due to transfers into the investment account during 2021, the book value of the Facility's portfolio increased from approximately \$1.02 billion to about \$1.06 billion over the 12 months ending June 30, 2022. As of that date, the market value of the account was \$1 billion, reflecting a net unrealized loss of about \$64.6 million driven by recent increases in interest rates. The chart included in this report reflects the portfolio's performance compared to the benchmark for the 12 months ending at the respective periods.

The Facility's administrative expenses totaled \$8.9 million during calendar year 2021, which represented a reduction of 4% from the prior year and approximately 93% of the approved budget for that period. The table and chart on this page show a summary of the direct and allocated expenses

Investment Portfolio Performance—Annualized Total Returns vs. Benchmark

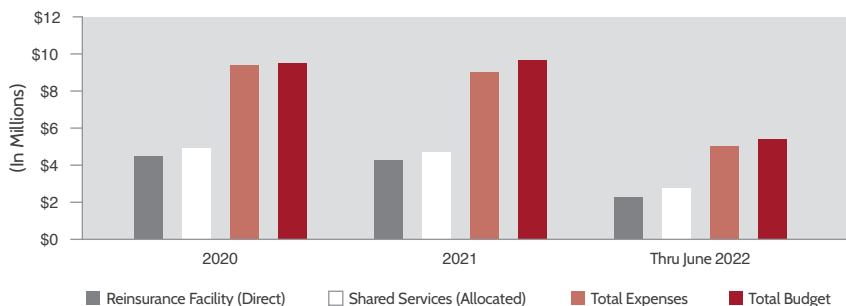


for the prior two years and the first half of 2022. Both open positions and IT projects were the significant drivers for the unused funds in 2021, and these initiatives were incorporated into the budget for 2022, along with plans to return to more normal travel and activity, all contributing to the 3% increase in budget for 2022 over the prior year.

The firm of Johnson Lambert again performed the annual audit for the year ending September 30, 2021, conducted the entire audit remotely utilizing various online tools and resources, and presented their report to the Audit Committee in February, 2022. Johnson Lambert issued an unqualified opinion on the special purpose financial statements, 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. In June 2022, the Facility's Partnership Tax Form K-1s for member companies were published online via the EDGE system.

We are pleased to report a continued increase in the adoption of electronic payments by member companies to the Facility for monthly Account Activities and encourage more companies to do the same. Almost 100% of our member companies receiving monthly settlements from the Facility are receiving these via ACH, and we have further increased the use of electronic payments to the Facility's vendors as well. A Request for Proposal (RFP) was distributed this year for a new accounting system, and multiple products have been evaluated. At the time of this writing, we are in the final stages of the due diligence phase and nearing the final selection of the new system. Due to the size and complexity of the new system, implementation is expected to be in phases and will extend well into next year. This is a multi-year project and will benefit both the Facility and its sister organizations with improved functionality and provide greater opportunities for location independence. The update of several other core systems will follow. We continue to look for ways to improve our efficiency and customer service and welcome any feedback.

Administrative Expenses



Administrative Expenses	2020	2021	Thru June 2022
Reinsurance Facility (Direct)	\$ 4,472,601	\$ 4,255,996	\$ 2,280,719
Shared Services (Allocated)	\$ 4,860,189	\$ 4,680,442	\$ 2,731,332
Total Expenses	\$ 9,332,790	\$ 8,936,438	\$ 5,012,051
Total Budget	\$ 9,405,795	\$ 9,592,137	\$ 5,348,615

Information Services



Shelley Chandler
Chief Information Officer

Information Services is dedicated to leveraging technology to enhance our business processes and to fulfill the needs of our customers. In 2022, we returned to the office utilizing a hybrid schedule while continuing to build on the processes that had been implemented in a remote environment over the past two years. We continue to investigate and implement strategies that support location independence in an effort to promote long-term flexibility.

Security demands constant attention and resources to ensure integrity of our data, business operations, reputation, and financial stability. This requires vigilance as we constantly evaluate vulnerabilities and upgrade our systems to help protect our environment and data. Audits and third-party testing continue to be useful tools in helping us identify potential weak spots and allowing us to remediate and reduce our risk. This year, a Security Risk Assessment, performed by a third-party vendor, was used to update our security implementation roadmap and advance our improvement to security maturity. Additionally, one of our more practical and most important defense mechanisms used to mitigate security risks is employee training. Every month, associates receive security awareness assessments as a way to expand and reinforce their knowledge and understanding of security threats. This training has enabled associates to identify potential issues and respond proactively. In 2022, we transitioned to a new security training platform to ensure that the education is relevant and engaging for our associates. While the cost of cyber liability insurance increased significantly across the industry in 2022, our prior implementation of multi-factor authentication for critical components ensured that we were able to renew coverages at our existing limits.

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 that are used internally as well as by our external customers. In 2022, the Software Development group continued work on the Audit Hub system as well as expansion of Tableau for reporting to gain a better understanding of operations and audit information.

We are ready for the challenges that lie ahead as we continue to provide the organization with solutions that increase efficiency and help to meet our members' needs through technology.

Human Resources and Facility Services



Vicki Godbold
Chief Human Resources Officer

Our Human Resources department is dedicated to the success and well-being of the organization's most valued assets—our people. From associate training to compensation and benefits, along with the development of work-place policies and guidelines, we are committed to providing a positive and productive work environment while maintaining compliance with federal regulations as they continue to change. In that same vein, Facility Services (which includes mail services and receptionist services) has worked diligently over the past two years to provide safe, secure, and comfortable working conditions, ensuring that the office was ready for repopulation back in March.

Our Wellness Program consists of

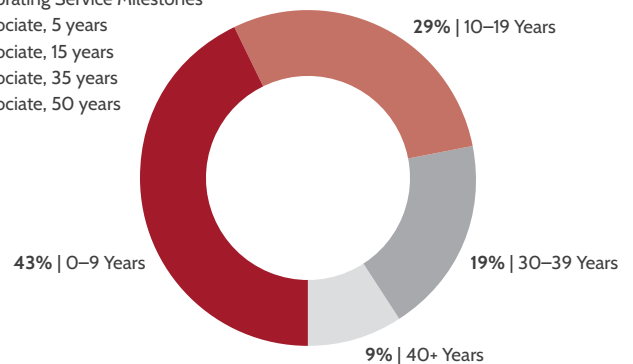
- a partnership with WakeMed Hospital,
- a partnership with YogaBlyss,
- a partnership with the NC Prevention Partners,
- American Red Cross virtual re-certification in First Aid/CPR,
- American Red Cross Blood Drives on-site, and
- WW at Work.

On-site training this year consisted of both virtual and in-person training for staff.

Community Service involvement by our associates this year included the United Way.

Associate Service Milestones—Years of Service

Celebrating Service Milestones
1 associate, 5 years
1 associate, 15 years
1 associate, 35 years
1 associate, 50 years



NCRF Management Staff



Tom Burns
Director, Auto Operations



Andy Montano
Manager, Automobile



Donna Kallianos
Manager, Claims



Debbie Taylor
Member Services Supervisor



Jodi Webb
Compliance Manager



Kevin Braswell
Compliance Manager

Balance Sheet

As of	June 30, 2022	June 30, 2021
Assets		
Cash (Checking Account)	\$22,975,311	\$14,583,201
Cash Restricted (Including Escrow)	-	-
Investments	1,060,472,117	1,017,141,869
Accounts Receivable	30,255,923	35,387,323
Accrued Interest Receivable	5,883,125	5,949,479
Other Assets	92	92
Total Assets	\$1,119,586,568	\$1,073,061,964
Liabilities & Members' Equity		
Accounts Payable	\$48,570,785	\$27,130,461
Loss Reserves	785,587,990	732,080,387
Unearned Premium Reserves	390,728,989	384,260,111
Provision for Premium Refunds	-	-
Other Liabilities	765,021	989,747
Total Liabilities	\$1,225,652,785	\$1,144,460,706
Members' Equity	(106,066,216)	(71,398,742)
Total Liabilities & Members' Equity	\$1,119,586,568	\$1,073,061,964

Income Statement

Fiscal Year through	June 30, 2022	June 30, 2021
Income		
Earned Premiums	\$847,744,999	\$822,730,140
Clean Risk Recoupment	221,025,913	177,938,942
Investment Income	18,791,954	17,325,314
Membership Fee Income	58,100	57,400
Other Income	301,296	118,242
Total Income	\$1,087,922,261	\$1,018,170,038
Expenses		
Losses Incurred	\$820,117,092	\$724,330,028
Ceding & Claims Expenses	322,892,373	328,407,186
Premiums Escrowed	-	-
Other Underwriting Deductions	-	-
Salaries & Administration Expenses	3,002,471	2,811,419
Outside Services Expenses	2,046,770	2,091,982
Other Operating Expenses	2,193,525	2,035,906
Total Expenses	\$1,150,252,230	\$1,059,676,520
Net Income/(Loss) Before Loss Recoupments	\$ (62,329,969)	\$ (41,506,482)
Loss Recoupments	22,884,721	95,028,315
Net Income/(Loss) After Loss Recoupments	\$ (39,445,248)	\$53,521,833

Special Purpose Balance Sheet

Year Ending	Sept 30, 2021	Sept 30, 2020
Assets		
Cash and Short-Term Investments	\$69,670,341	\$39,485,104
Investments, at Amortized Cost	986,919,787	868,624,604
Accrued Interest Receivable	5,458,977	6,415,110
Settlements Receivable From Member Companies	42,391,389	34,676,651
Total Assets	\$1,104,440,494	\$949,201,469
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves		
• In Course of Settlement	\$504,091,291	\$465,976,365
• Incurred But Not Reported	252,446,814	220,186,034
Total Loss and Loss Adjustment Expense Reserves	756,538,105	686,162,399
Unearned Premium Reserves	392,091,085	368,877,288
Advance Clean Risk Subsidies	7,552,173	5,303,761
Settlements Payable to Member Companies	21,838,805	18,138,993
Other Liabilities	593,467	943,367
Total Liabilities	\$1,178,613,635	\$1,079,425,808
Members' Equity	(74,173,141)	(130,224,339)
Total Liabilities and Members' Equity	\$1,104,440,494	\$949,201,469

Special Purpose Statement of Operations

Year Ending	Sept 30, 2021	Sept 30, 2020
Premiums Earned	\$1,105,947,441	\$1,068,676,263
Clean Risk Subsidies	241,695,080	167,817,457
Total Underwriting Income	\$1,347,642,521	\$1,236,493,720
Losses Incurred	\$990,892,904	\$928,167,045
Ceding Expense Allowances	287,456,877	267,298,099
Claims Expense Allowances	154,782,192	139,383,410
Total Underwriting Expenses	\$1,433,131,973	\$1,334,848,554
Net Underwriting Loss	\$ (85,489,452)	\$ (98,354,834)
Other Income (Expense)		
Net Investment Income	\$21,784,090	\$23,949,664
Net Realized Investment Gains	765,265	3,736,638
Late Premium Charges and Penalties	139,633	279,457
Membership Fees	57,700	56,500
General and Administrative Expense	(7,957,649)	(8,107,480)
Total Other Income — Net	\$14,789,039	\$19,914,779
Net Operating Loss	\$ (70,700,413)	\$ (78,440,055)

NCRF

NORTH CAROLINA
REINSURANCE
FACILITY

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