



MINUTES OF THE THIRTY-THIRD ANNUAL MEETING OF THE NORTH CAROLINA  
REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND CONFERENCE  
CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA  
OCTOBER 25, 2006

MEMBERS PRESENTREPRESENTED BY

Alliance Mutual Insurance Company

Robert Herring  
Mary Taylor  
Bob White  
Bob Blystone

Allstate Insurance Company

Allstate Indemnity Company  
Allstate Property & Casualty Insurance Company  
Encompass Indemnity Company  
Northbrook Indemnity Company

American Home Assurance Company

AIG Centennial Insurance Company  
AIU Insurance Company  
American International South Insurance Company  
Birmingham Fire Insurance Company of Pennsylvania  
Commerce & Industry Insurance Company  
Granite State Insurance Company  
Insurance Company of the State of Pennsylvania  
National Union Fire Insurance Company of Pittsburgh, PA  
New Hampshire Insurance Company

Gary Sanginario  
Kevin Steele

Atlantic Casualty Insurance Company

Coastal Casualty Insurance Company

Auto Owners Insurance Company

Owners Insurance Company

Builders Mutual Insurance Company

Government Employees Insurance Company

Cornhusker Casualty Company  
GEICO General Insurance Company  
GEICO Indemnity Company  
General Star National Insurance Company  
Genesis Insurance Company  
National Indemnity Company  
National Liability & Fire Insurance Company  
Republic Insurance Company

Paul Aycock  
Richard Yarbrough  
Mary Pierce  
Alice Hamm  
Jerry Visintine  
Tom McNicholas  
Anthony Zuvich

Hartford Fire Insurance Company

Hartford Accident & Indemnity Company  
Hartford Casualty Insurance Company  
Hartford Insurance Company of the Midwest

Todd Martensen

Hartford Underwriters Insurance Company	
Property & Casualty Insurance Company of Hartford	
Sentinel Insurance Company, Ltd.	
Trumbull Insurance Company	
Twin City Fire Insurance Company	
Horace Mann Insurance Company	Greg Carr
Horace Mann Property & Casualty Insurance Company	
Teachers Insurance Company	
Integon Indemnity Corporation	Art Lyon
CIM Insurance Corporation	
GMAC Direct Insurance Company	
GMAC Insurance Company Online, Inc.	
Integon Casualty Insurance Company	
Integon General Insurance Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Integon Specialty Insurance Company	
MIC Property & Casualty Insurance Corporation	
National Alliance Insurance Company	
National General Assurance Company	
New South Insurance Company	
Liberty Mutual Insurance Company	John Ittner
Colorado Casualty Insurance Company	
Employers Insurance Company of Wausau	
Excelsior Insurance Company	
First Liberty Insurance Corporation	
Liberty Insurance Corporation	
Liberty Mutual Fire Insurance Company	
Liberty Mutual Mid-Atlantic Insurance Company	
LM General Insurance Company	
LM Insurance Corporation	
LM Personal Insurance Company	
LM Property & Casualty Insurance Company	
Montgomery Mutual Insurance Company	
The Netherlands Insurance Company	
Peerless Indemnity Insurance Company	
Peerless Insurance Company	
Wausau Business Insurance Company	
Wausau Underwriters Insurance Company	
Nationwide Mutual Insurance Company	Amy Powell
Allied Property & Casualty Insurance Company	J. Kevin King
AMCO Insurance Company	
Depositors Insurance Company	
Farmland Mutual Insurance Company	
National Casualty Company	
Nationwide Affinity Insurance Company	
Nationwide Agribusiness Insurance Company	
Nationwide Insurance Company of America	
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
Scottsdale Indemnity Company	
Titan Indemnity Company	
North Carolina Farm Bureau Mutual Insurance Company	Roger Batdorff
Farm Bureau Insurance Company of North Carolina	
Progressive Casualty Insurance Company	Patricia D'Ambrosia

National Continental Insurance Company  
Progressive American Insurance Company  
Progressive Direct Insurance Company  
Progressive Northern Insurance Company  
Progressive Northwestern Insurance Company  
Progressive Preferred Insurance Company  
Progressive Premier Insurance Company of Illinois  
Progressive Southeastern Insurance Company  
Progressive Universal Insurance Company  
United Financial Casualty Company

Chris Skorcz

Sentry Casualty Company

Tim Miller

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

Southern General Insurance Company

Angela Haitcock

State Automobile Mutual Insurance Company

Wes Florence

State Automobile National Insurance Company

State Automobile Property & Casualty Insurance Company

State Farm Mutual Automobile Insurance Company

Alan Bentley

David Stoller

The Members Insurance Company

Jim McCafferty

Travelers Indemnity Company

Michael Fitzgerald

Athena Assurance Company

Chad Mirock

Atlantic Insurance Company

Benjy Seagle

Automobile Insurance Company of Hartford, CT

Charter Oak Fire Insurance Company

Commercial Guaranty Casualty Insurance Company

Commercial Guaranty Insurance Company

Discover Property & Casualty Insurance Company

Farmington Casualty Company

Fidelity & Guaranty Insurance Company

Fidelity & Guaranty Insurance Underwriters, Inc.

Mendakota Insurance Company

Northland Casualty Company

Northland Insurance Company

Phoenix Insurance Company

Select Insurance Company

St. Paul Fire & Marine Insurance Company

St. Paul Guardian Insurance Company

St. Paul Medical Liability Insurance Company

St. Paul Mercury Insurance Company

St. Paul Protective Insurance Company

Standard Fire Insurance Company

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 Insurance Company

Travelers Commercial Casualty Company

Travelers Home & Marine Insurance Company

Travelers Indemnity Company of America

Travelers Indemnity Company of Connecticut  
Travelers Personal Security Insurance Company  
Travelers Property Casualty Company of America  
Travelers Property Casualty Insurance Company  
United States Fidelity & Guaranty Company  
United Services Automobile Association  
USAA Casualty Insurance Company  
USAA General Indemnity Company  
Universal Insurance Company

Joe Schmucker

Greg Spray  
Lisa Stafford

OTHERS PRESENT

Auto Insurance Agents of NC  
  
Bagwell & Bagwell, Inc.  
Green & Wooten Insurance  
Independent Insurance Agents of NC  
Senn, Dunn, Marsh & Roland  
Wester Insurance Agency  
Evergreen Investments  
  
Insurance Federation of NC  
Insurance Services Office  
North Carolina Department of Insurance  
Young, Moore & Henderson  
  
Staff

REPRESENTED BY

Jeff Butler  
Rick Pegram  
Steve Smith  
John E. Wooten, III  
David Walker  
Tim Ward  
Hutson Wester  
Rich Applebach  
Paige Henderson  
Joe Stewart  
Patrick Woods  
Fred Fuller  
Mickey Spivey  
Mike Strickland  
Jim Auman  
Jannet Barnes  
Adrienne Bizzell  
Edith Davis  
Chuck Eckstein  
Ray Evans  
Delisa Fairley  
Vicki Godbold  
Linda Gould  
Wayne Hinton  
Fred Hoerl  
Betty Hurst  
Tim Lucas  
Lois Murphey  
David Sink  
Paula Stana

176 other companies participated by proxy.

The meeting was convened as scheduled, Mr. Blystone presiding. Ms. Davis announced that there was a quorum.

Reference was made to the Facility's Antitrust Compliance Policy and Conflicts of Interest Statement, copies of which were made available.

1. Annual Report

Copies of the Thirty-Third Annual Report for the fiscal year ended September 30, 2006 were distributed. Mr. Evans, Ms. Davis and Mr. Sink reviewed and commented on the Report, a copy of which is attached and forms a part of the record. The members were also advised that the Report was now available on the Facility website under its own link from the homepage. The presenters also referred to a PowerPoint presentation which is also attached.

2. Plan of Operation Amendments

Ms. Davis reviewed proposed amendments to Article IX in the Facility's Plan of Operation, noting that Board of Governors recommended adoption of these amendments. It was also noted that the purpose of the amendments was to provide for cession of the limits of coverage authorized by N. C. G. S. 58-37-35(b).

A motion was made, seconded, and unanimously passed to adopt the amendment to Article IX in the Facility's Plan of Operation.

3. Chairman's Comments

Mr. Blystone commented on the current stability of the Facility's operating results and the efforts made by the Board and committees to successfully enact a plan to correct the negative member's equity position of the Facility. He further noted that the development of the new information system would benefit not only the Facility's operations but offer efficiencies and process improvement for the member companies as well. He expressed gratitude on behalf of the Board of Governors to the staff, members of the Facility committees and counsel for their efforts during the preceding year.

4. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Edith T. Davis

Director, Reinsurance Facility

ETD/lam  
Enclosure  
BG-06-15




**WELCOME**

**North Carolina  
Reinsurance Facility**

*Annual Meeting*  
*October 25, 2006*

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**General Manager's Report**

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## Objectives of the Organization

- Comply with the enabling statute.
- Do the right thing.
- Maintain effective operations.

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The past year was a success.

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## What makes the Facility tick.

- Rate structures
  - Clean risk rates
  - Non-clean risk rates
  - Commercial rates
- Operating expenses
  - Operating expense
  - Expense allowances
- Compliance
  - Premium accuracy
  - Claims payment accuracy
- Investments

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## This year's challenges.

- EDGE.
- Commercial auto business.
- Clean risk rates.
- From an insurance perspective, what is in the book of business?

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## Committed to Excellence

- Support from members and agents.
- The great work of our associates including the Organization's shared resources.
- Help of the Department of Insurance.
- Input from Counsel and other experts.

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## It's all about value

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- The activities of the Facility are designed to ensure:
  - Right premium
  - Right recoupment
  - Right losses
  - Minimize the financial burden on the driving public.

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## **Solid Financial Results**

- ✓ Positive Equity Restored
- ✓ Loss Recoupment Surcharge Expired
- ✓ Clean Risk Recoupment Surcharge Decreasing
- ✓ Annual Recoupment Review Date Moved to October

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## We are getting an EDGE!

- ✓ New information system moved from concept to reality

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## Compliance Activity

- ✓ Audit Tracking Tool Designed
- ✓ Commercial Auto FAQ's Published on Website

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- ✓ Implementation of Contact Management & Web Security systems
- ✓ Implementation of IT Disaster Recovery Plan

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The Staff of the NCRF is charged with annually overseeing:

- \$750 million in reinsurance premiums
- \$240 million of clean risk recoupment surcharges
- \$107 million on loss recoupment surcharges
- \$630 million in loss reimbursements to members
- \$500 million in reserves maintained for losses
- 2.7 million cession transactions
- 24 million accounting transactions

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Thank you to all who contributed!

- Board
- Committees
- Counsel
- Member companies
- Staff
- AIPSO

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## **Finance & Administration Report at the Annual Meeting**

**October 25, 2006**

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## Finance & Administration - 2006

- Accounting System Enhancements for IT Initiatives and System Developments
- Management Reporting and Budget Process Improvements
- Phone System Enhancements for Information Center
- Fixed Asset System (Inventory)
- Cross Training of Accounting Staff

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## Finance & Administration - 2006

- Business Recovery & Process Documentation
- Outsourcing of Payroll Processing
- Facility Maintenance & Repairs
- Operating Expenses through September
  - \$ 4,191,800 (79.3% Budget)
  - 28.8% higher than 2005
  - Projected to be within 2006 budget
- Overall Financials
  - Q/E June 30, 2006 4<sup>th</sup> consecutive gain
  - Result distributed by end of October 2006
  - Members Equity stands at \$46.9 million

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## **Finance & Administration - 2007**

- Cost Containment and Controls
- Security Controls for Electronic Fund Transfers
- Maintain Accounting System Interfaces
- Internal Space Reallocation
- Outsourcing of Time & Attendance System

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Excellence*



**North Carolina  
Reinsurance Facility**

**2006 ANNUAL REPORT**



# North Carolina Reinsurance Facility

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## General Organizational Information

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<i>NCRF Main Phone Number</i>	919-783-9790
<i>Facsimile</i>	919-783-0355
<i>Internet Address</i>	<a href="http://www.ncrb.org/ncrf">www.ncrb.org/ncrf</a>
<i>Physical Address</i>	5401 Six Forks Road Raleigh, NC 27609

## Management Contacts

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<i>Ray Evans</i> .....	<i>General Manager</i> .....	919-582-1001	.....	<a href="mailto:rfe@ncrb.org">rfe@ncrb.org</a>
<i>Edith Davis</i> .....	<i>Director, Reinsurance Facility</i> .....	919-582-1006	.....	<a href="mailto:etd@ncrb.org">etd@ncrb.org</a>
<i>Jannet Barnes</i> .....	<i>Manager, Compliance</i> .....	919-582-1022	.....	<a href="mailto:jbb@ncrb.org">jbb@ncrb.org</a>
<i>Tim Lucas</i> .....	<i>Manager, Automobile</i> .....	919-582-1021	.....	<a href="mailto:fil@ncrb.org">fil@ncrb.org</a>
<i>R. Mike Newton</i> .....	<i>Manager, Claims</i> .....	919-582-1018	.....	<a href="mailto:rmn@ncrb.org">rmn@ncrb.org</a>
<i>David Sink</i> .....	<i>Director, Finance &amp; Administration</i> .....	919-582-1012	.....	<a href="mailto:des@ncrb.org">des@ncrb.org</a>
<i>Vicki Godbold</i> .....	<i>Director, Human Resources</i> .....	919-645-3170	.....	<a href="mailto:vcg@ncrb.org">vcg@ncrb.org</a>
<i>Jim Auman</i> .....	<i>Director, Information Technology</i> .....	919-582-1032	.....	<a href="mailto:jra@ncrb.org">jra@ncrb.org</a>

## Annual Meeting

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The Annual Meeting for member companies of the North Carolina Reinsurance Facility will be held October 25, 2006 at the Grandover Resort and Conference Center, Greensboro, North Carolina.





## *Message from the Chairman*

The last 12 months have again passed quickly by, and your Board of Governors has continued to actively manage the NCRF affairs. You'll recall 2 years ago that Members Equity was deeply in the red and a logical, measured approach was adopted by the Board to bring it in line. Last year significant progress had been made and as 2006 closes, it is no longer an issue.

Your Facility staff has had a goal to handle the daily operations efficiently and to build a better future via the EDGE system. This mechanized system will make life easier for your employees and improve the financial transactions with your company once it is completely rolled out. Many of you already know this because your staffs are involved in the development. Edith Davis has directed this effort and deserves your thanks.

There are many company representatives who serve on committees and task forces that contribute to the success of managing the Facility. I offer my thanks to each of you...your efforts matter.



Bob Blystone  
Chair, NCRF Board of Governors

In closing, I would especially like to thank Ray Evans, who is able every day to balance competing needs and limited resources to a successful end. You can bet that the next Board Chairman will have the same tremendous support that I did.

Regards,

Bob Blystone  
Chair, NCRF Board of Governors



***“The Key to Effective Leadership is the Relationship You Build With Your Team”***

*Ken Blanchard Marc Muchnick*

## *Board of Governors*

Responsibility for management is vested in a fifteen-member Board of Governors. There are twelve voting members; seven member insurance companies; 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. Six meetings of the Board were held during the year, including two telephone conferences.

MEMBERS	REPRESENTATIVE
Allstate Insurance Co . . . . .	Bob Blystone *
Atlantic Casualty Insurance Co . . . . .	Richard Yarbrough
Integon Indemnity Corporation . . . . .	Art Lyon
Nationwide Mutual Insurance Co . . . . .	Amy Powell
New Hampshire Insurance C. . . . .	Gary Sanginario
Travelers Indemnity Co . . . . .	Michael K. Fitzgerald
Universal Insurance Co . . . . .	Greg Spray * Chair

AGENT MEMBERS	
Independent Insurance Agents of NC, Inc . . . . .	Steven D. Smith
Appointed by the Commissioner of Insurance . . . . .	W. Hutson Wester, II
Appointed by the Commissioner of Insurance . . . . .	John E. Wooten, III
Auto Insurance Agents of North Carolina, Inc. . . . .	Jeffrey W. Butler
Independent Insurance Agents of NC . . . . .	Tim Ward

PUBLIC MEMBERS	LOCATION
J. David Walker . . . . .	Lumberton, NC
Steve J. Whitley. . . . .	North Wilkesboro, NC

EX-OFFICIO MEMBER	
James E. Long. . . . .	Commissioner of Insurance

## *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. The Accounting and Stitstical Committee is a joint

AIPSO and NCRF committee and is chaired by Eagle Insurance Company. In addition, there are several additional specialty advisory groups who perform similar tasks for the Facility throughout the year. The following committees met during the report period:

### *Audit Committee*

MEMBER	REPRESENTATIVE
Liberty Mutual Insurance Co. . . . .	Ronald H. Robertson, Jr.*
NC Farm Bureau Mutual Insurance Co. . . . .	Linda M. Squires
Nationwide Mutual Insurance Co . . . . .	Kathy Southern
Pennsylvania Nat Mut Casualty Ins Co . . . . .	Charles J. Uckele
State Farm Mutual Automobile Insurance Co. . . . .	Audrey L. Martens
Travelers Indemnity Co . . . . .	B.F. Seagle
Steven D. Smith - Agent	* Chair

## *Compliance Committee*

MEMBER	REPRESENTATIVE
Integon Indemnity Co . . . . .	Seth Kernodle
Nationwide Mutual Insurance Co . . . . .	Kathy Southern
Universal Insurance Co . . . . .	Gregory L. Spray *
W. Hutson Wester, II - Agent	* Chair

## *Investment Committee*

MEMBER	REPRESENTATIVE
Allstate Insurance Co . . . . .	Margorie Anderson
Nationwide Mutual Insurance Co . . . . .	Michael D. Groseclose*
Royal Indemnity Co . . . . .	Dave Shumway * Chair

## *Task Force on Expense Allowances*

MEMBER	REPRESENTATIVE
Allstate Insurance Co . . . . .	Bob Blystone
American International South Insurance Co . . . . .	Gary T. Sanginario
Nationwide Mutual Insurance Co . . . . .	Steve Turner *
Sentry Insurance Co . . . . .	Tim Miller
Tim Ward - Agent	* Chair

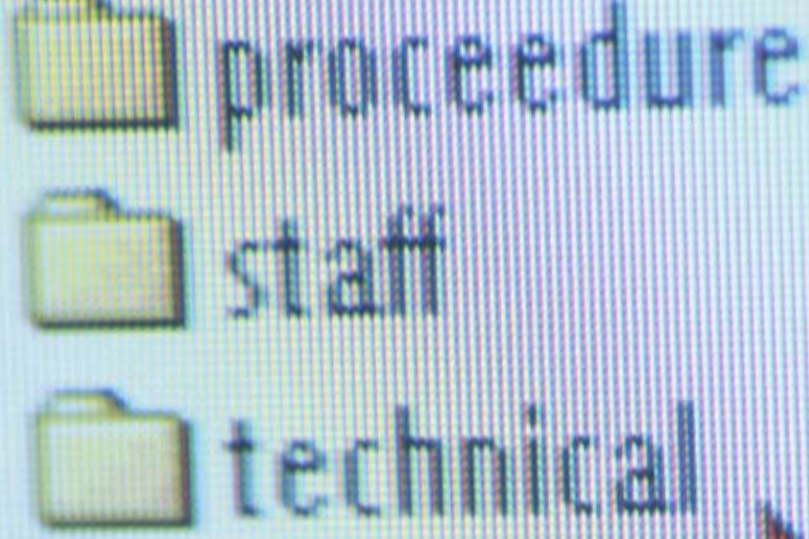
## *Task Force on Recoupment*

MEMBER	REPRESENTATIVE
General Casualty Insurance Co . . . . .	Stephen H. Cone
Nationwide Mutual Insurance Co . . . . .	Steve Turner
NC Farm Bureau Mutual Insurance Co . . . . .	Roger N. Batdorff
Progressive Casualty Insurance Co . . . . .	Patricia D'Ambrosia
State Farm Mutual Automobile Insurance Co . . . . .	Terry Pemberton *
Travelers Indemnity Co . . . . .	B.F. Seagle
Steven D. Smith - Agent	* Chair

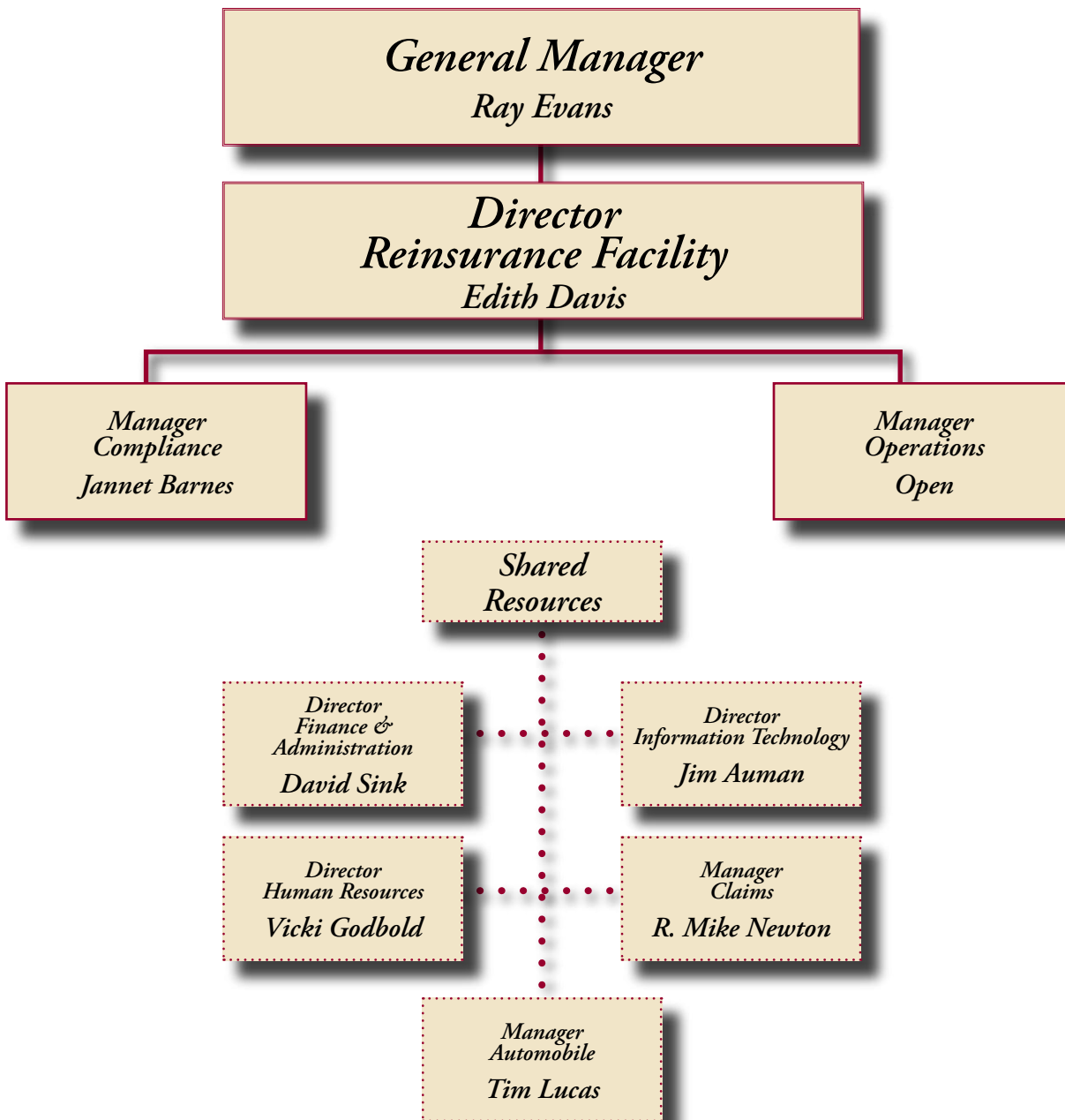
## *Technical Advisory Group*

MEMBER	REPRESENTATIVE
Allstate Insurance Co . . . . .	Essie Williams
Atlantic Casualty Insurance Group . . . . .	Greg Ricker
Discovery Insurance Co . . . . .	Denise Jefferson
Guaranty National Insurance Co . . . . .	Diane Wirkus
Integon Indemnity Corporation . . . . .	Mary Anne Peele
Nationwide Mutual Insurance Group . . . . .	Larry Donaldson
New Hampshire Insurance Co . . . . .	Pete Cotton
NC Farm Bureau Mutual Insurance Co . . . . .	Brian Top
Progressive Insurance Co . . . . .	Patricia D'Ambrosia
Safeco Insurance Co . . . . .	Jeff Castle
Southern General Insurance Co . . . . .	Marguerite Clark
State Farm Mutual Insurance Co . . . . .	Paula Harlow
Travelers Indemnity Co . . . . .	Annette Whitaker
Universal Insurance Co . . . . .	Lisa Stafford





## *NCRF Organizational Chart*





## *General Manager's Report*

What a difference a year makes! Last year at this time the Facility had a deficit of about \$120 million, experience was deteriorating and we were facing a huge project in replacing the operating software.

Today, we're happy to report an entirely different story: a surplus of about \$46 million, an underwriting "profit" and a software replacement project that is on schedule and on budget. The Facility is stable, financially strong, total revenue is matched with expenses and losses, and we are close to migrating to an operating platform that will last for years.

What *happened*, as one of my grandchildren is fond of saying when he has just gotten into mischief? Maybe, and I am being only a little facetious, it was the 47 box lunches we had during committee meetings. The reality is that it has been a combination of hard work, good decisions and a focus on results. These fundamentals, along with good

communications— one of the reasons for all those box lunches— and a "do what is needed to get the job done" attitude enabled the Facility to enjoy such a successful year.

The story of the year's important events are detailed a little later in this report, so, I won't belabor the points here. Instead, I'd like to take this opportunity to thank the Board and especially Bob Blystone, the Chair, for asking questions, listening and taking action. In addition to the Board were a number of Committees of the Board that were involved at every step— a big thank you to them. Finally, I'd like to express my appreciation to our staff— a group that shares a vision of being committed to excellence and is willing and able to put the strategies of the Board into action.



Raymond F. Evans, Jr., CPCU  
General Manager

*Raymond F. Evans, Jr., CPCU*  
*General Manager*



# Management Discussion & Analysis



Edith Davis, CPA,  
Director, Reinsurance Facility

The NCRF accomplished many significant goals in the past year.

## *It's All About Value*

As a not-for-profit organization, we do not have the normal benchmarks for success, but are nevertheless committed to excellence.

The way we achieve excellence is to provide value to the industry.

Our charge is to provide stability to the marketplace. Throughout our 33-year history, we have maintained a market share of about 25%. During this report period, the NCRF was the second largest residual market mechanism by total written premium volume in the United States.

The activities of the Facility are designed to ensure that we receive the right premium and recoupment, pay the right losses and minimize the financial burden on the driving public.

Each year we improve on this through more efficient operations and enhanced compliance.

## *Solid Financial Results*

- ✓ Positive Equity Restored
- ✓ Loss Recoupment Surcharge Expired
- ✓ Clean Risk Recoupment Surcharge Decreasing
- ✓ Annual Recoupment Review Date Moved to October

It was a very successful year on many fronts.

## **Milestones of Fiscal Year 2005-2006**

- ✓ Positive Equity Restored
- ✓ Loss Recoupment Surcharge Expired
- ✓ Clean Risk Recoupment Surcharge Decreasing
- ✓ Annual Recoupment Review Date Moved to October
- ✓ New information system moved from concept to reality
- ✓ Audit Tracking Tool Designed
- ✓ Commercial Auto FAQ's published on Website
- ✓ Implementation of IT Disaster Recovery Plan
- ✓ Implementation of Contact Management & Web Security systems

First, the Facility has been restored to a positive equity position right on schedule within the 12-month plan laid out in 2005 by the disciplined actions of the Board of Governors. Through June 2006, the Loss Recoupment surcharge implemented in April 2005 had recovered \$107 million of the targeted \$112.7 deficit incurred in 2004. This surcharge of 4.17% (before agent compensation) applied to the liability premiums of private passenger non-fleet policies. Between the additional revenue generated by this retrospective Loss Recoupment, and improved operating results, the Board was able to terminate the Loss Recoupment for policies effective on or after March 31, 2006.

The improved operating results were influenced by a change in methodology for calculating the prospective Clean Risk Recoupment put into place in 2005 by the Board. The new methodology better estimates the shortfall in premiums received by the Facility on ceded "clean risks" that by law may only be charged the voluntary manual rates. This is not a self-supporting rate for these risks. The Clean Risk Recoupment was adjusted twice in 2005, but as a result of several approved private passenger voluntary rate increases, the Clean Risk Recoupment surcharge of 9.71% (before agent compensation) will be reduced to 8.82% (before agent compensation) effective in October, 2006. An additional benefit of these changes was the completion of a move to an October recoupment review date annually

to better assist member companies with their programming and reduce the number of times a year companies have to "raise hood" on their system for Facility changes.

## *Rate Changes*

During the year, the Facility filed a base rate change to the "other than clean risks" ceded to the Facility. The filed rates increased 2.9% which was split with an increase in bodily injury of 13.7, a decrease of 11.1% for property damage and an increase of 17.6% for medical payments coverage. The revision also included a decrease of 4.1% for motorcycle liability insurance. This filing was a "file and use" filing and became effective with all policies effective on or after October 1, 2006.

## *Compliance Activity*

- ✓ Audit Tracking Tool Designed
- ✓ Commercial Auto FAQ's Published on Website

Member compliance continues to be a major focus. All member companies are now audited at least once a year. In the year covered by this report, almost 6000 premium and claim files were reviewed and over \$3 million in reporting or rating errors were corrected. These reviews serve not only as a financial and compliance audit, but as a service to members; companies had advised us that system problems are often identified and corrected sooner as a result of these audits, which can mitigate the amount of correction action required.





**From Concept to Reality, EDGE is on schedule and will begin to roll out in early 2007**

## *We are getting an EDGE!*

### ✓ **New information system moved from concept to reality**

Our Electronic Data Gathering Enterprise (EDGE) system development is in high gear. This year, with tremendous support from the Board and member companies, and a new partnership with AIPSO, the Facility was able to undertake the only full development of a new information system in the history of the Facility. Three years in the making, EDGE is not an update of the current system but a complete re-engineering of the Facility processes, incorporating current industry best practices. The COBOL-based mainframe system at AIPSO will be replaced by a business-to-business web application that uses technology designed for the way companies do business today.

This system will offer member companies a number of distinct advantages:

- **Single sign-on access to the Facility, Rate Bureau and IGA**
- **Secured, encrypted electronic transfer of data**
- **Settlement cycles shortened from 60 days to 30 days**
- **Online presentation of new consolidated statement billing**
- **EFT payment options**
- **Real-time ceding of risks**
- **Online acknowledgements and management of submitted data**
- **Online edits**
- **Email alerts**

The efficiencies to be gained benefit not only the NCRF; member companies will experience a reduction in the man-hours and overhead required for Facility

reporting, the elimination of shipping costs to report their data, and an increase in the time available to make corrections – thereby reducing penalties – as the current a once-a-month opportunity to submit corrections becomes a 24/7 capability with multi-user access. For the first time ever, companies will have access to their own data already submitted and receive real-time acknowledgements of submissions, further reducing the opportunity for errors resulting in the loss of ceded coverage.

To date, EDGE is on schedule and on budget, and will begin to roll out in early 2007. Special thanks to the participation of the Technical Advisory Group! This cross-section of member companies has assisted in every phase of the design, requirements, and testing of EDGE to make it as member-friendly as possible.

Technology is delivering benefits in this area, too. An Audit Tracking module is included in the design of EDGE to enable the Facility staff to better manage and track the results of the audits. In addition, this year saw the introduction of 12 pages of Frequently Asked Questions relating to Commercial Auto coverage, specifically developed to assist companies in properly rating and reporting Commercial ceded coverages, posted on our website.

Ongoing activities in Compliance included the development of new process documentation and a review and refinement of all audit procedures.

## *EDGE is only part of the way we are positioning ourselves for the future.*

### ✓ **Implementation of Contact Management & Web Security systems**

There is undeniable value in economies of scale. The NCRF is part of a continued synergy with our sister organizations, the NC Rate Bureau and the NC Insurance Guaranty Association. Targeted for completion in 2006 is a Web Security and Contact Management System which will provide consolidated contact and web access information for all three organizations and allow users a single ID and password to access secured portions of the website for any of the three.

### ✓ **Implementation of IT Disaster Recovery Plan**

Investments have been made in a new shared IT Disaster Recovery plan to ensure continuity of critical systems. Additional functionality will be added in 2007.

## *Conclusion*

We conclude fiscal year 2005-2006 on solid financial ground, having achieved some significant milestones, and within our budget. And along the way, we believe we contributed to our ultimate goal – to add value through our commitment to excellence.

*Edith T. Davis*  
**Edith T. Davis, CPA**  
**Director, NCRF**





## Facility Facts

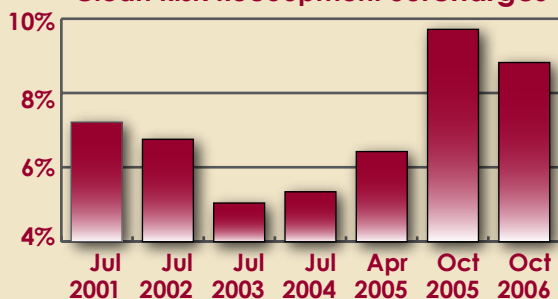
Currently, premiums consist of approximately 91% Private Passenger Non-Fleet business and 9% All Other Business.

Approximately 53% of these Private Passenger Non-Fleet risks are “clean risks”.

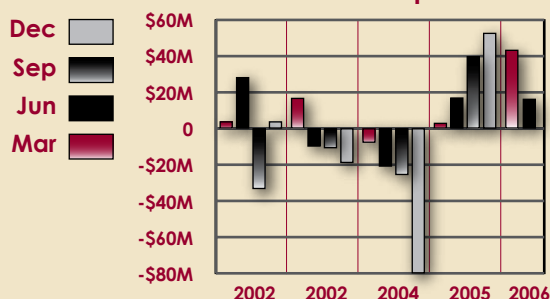
The Staff of the NCRF is charged with annually overseeing:

- \$750 million in reinsurance premiums**
- \$240 million in clean risk recoupment surcharges**
- \$107 million in loss recoupment surcharges**
- \$630 million in loss reimbursements to members**
- \$500 million in reserves maintained for losses**
- 2.7 million cession transactions**
- 24 million accounting transactions**

Clean Risk Recoupment Surcharges



Net Results of Operations



## Behind the North Carolina Reinsurance Facility

The Facility was created by the General Assembly in 1973 to ensure that automobile liability coverage is available to drivers the insurers are not otherwise willing to cover. Governed by statute, the Facility provides a mechanism enabling all drivers or auto policyholders in North Carolina to be insured.

Under the North Carolina law, licensed and writing carriers and agents must accept and insure any eligible applicant for coverages and limits that may be ceded to the Facility.

There is currently no cession limitation on the number of risks an insurance company may cede to the Facility.

The Facility is required by statute to operate at neither a profit nor a loss.

All insurance companies writing automobile insurance in the state are required by law to be members of the Facility.

The Facility reinsures approximately 25% of the auto liability market in NC; in CY 2005, this equated to approximately \$750 million in premiums.

North Carolina is the second largest in terms of private passenger auto liability premiums of all state residual market mechanisms. The fact that it has one of the lowest percentages of uninsured motorists in the country indicates how well this mechanism works.

1 out of every 4 of these cars is reinsured by the Facility



# North Carolina Reinsurance Facility

## BALANCE SHEET

	June 30, 2005	June 30, 2006
<b>Assets</b>		
Cash (Checking Account)	\$109,014	\$(80,582)
Investments	605,790,816	757,547,666
Assessments Receivable	47,366,617	42,508,789
Accrued Interest Receivable	6,368,659	7,241,560
Other Assets	58,871	61,275
<b>Total Assets</b>	<b>\$659,693,977</b>	<b>\$807,278,708</b>
<b>Liabilities &amp; Fund Equity</b>		
Accounts Payable	\$31,164,383	\$34,526,221
Loss Reserves Liability	504,185,624	495,568,154
Premium Liability	228,668,490	231,237,866
Other Liabilities	(491)	(774)
<b>Total Liabilities</b>	<b>\$764,018,005</b>	<b>\$761,331,466</b>
Fund Equity	(104,324,028)	45,947,241
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$659,693,977</b>	<b>\$807,278,708</b>

## INCOME STATEMENT

<b>Income</b>		
Membership Fees	\$49,200	\$46,950
Interest Income	18,550,040	23,307,422
Written Premiums Income	565,437,006	546,019,162
Realized Inv (Gain)/Loss	812,457	(4,645,943)
Clean Risk Recoupment Income	106,455,271	182,867,644
Loss Recoupment Surcharge Income	27,452,410	51,825,962
Other Income	594,719	555,341
<b>Total Income</b>	<b>\$719,351,103</b>	<b>\$799,976,537</b>
<b>Expenses</b>		
Salaries, Adm, & Payroll Taxes	\$943,133	\$1,029,784
Outside Services	1,444,868	1,723,403
Ceding, Claims, & Losses Paid	687,546,649	696,252,154
Other Operating Expenses	385,355	780,104
<b>Total Income</b>	<b>\$690,320,004</b>	<b>\$699,785,446</b>
<b>Net Income</b>	<b>\$29,031,099</b>	<b>\$100,191,091</b>



# North Carolina Reinsurance Facility (A PARTNERSHIP )

## SPECIAL-PURPOSE STATEMENTS of OPERATIONS

	Years Ended September 30, 2005	September 30, 2004
Premiums earned	\$742,061,858	\$722,046,336
Clean risk subsidies	150,582,254	123,630,900
<b>Total Underwriting Income</b>	<b>\$892,644,112</b>	<b>\$845,677,236</b>
Losses incurred	637,647,285	661,504,233
Ceding expense allowances	199,256,687	192,784,211
Claims expense allowances	91,005,200	88,271,151
<b>Total Underwriting Expenses</b>	<b>\$927,909,172</b>	<b>\$942,559,595</b>
<b>Net Underwriting Loss</b>	<b>\$ (35,265,060)</b>	<b>\$ (96,882,359)</b>
<b>Other Income (Expense)</b>		
Net investment income	24,694,189	23,486,201
Net realized capital gains	528,290	6,189,610
Late premium charges and penalties	523,989	639,736
Membership fees	50,550	48,400
Cession notice charges	26,159	24,992
General and administrative expense	(3,668,034)	(2,632,030)
Provision for premium refunds, including interest	5,705,552	(71,936,000)
Other miscellaneous income	216,674	80,878
<b>Total Other Income (Expense) - Net</b>	<b>\$28,077,369</b>	<b>\$ (44,098,213)</b>
<b>Net Operating Loss</b>	<b>\$ (7,187,691)</b>	<b>\$ (140,980,572)</b>

# North Carolina Reinsurance Facility (A PARTNERSHIP )

## SPECIAL-PURPOSE BALANCE SHEET

Years Ended September 30, 2005      September 30, 2004

### Assets

Cash and short-term investments	<b>\$28,259,744</b>	\$108,820,022
Long-term investments, at amortized cost	<b>603,487,957</b>	561,894,492
Accrued interest receivable	<b>5,241,584</b>	6,028,826
Receivables from member companies:		
Settlements	<b>59,064,984</b>	26,789,402
Late premium charges and penalties	<b>43,241</b>	23,902
	<b>\$59,108,225</b>	<b>\$26,813,304</b>

Earned but unbilled premiums	<b>35,357</b>	47,092
<b>Total Assets</b>	<b>\$696,132,867</b>	<b>\$703,603,736</b>

### Liabilities & members' (deficit) equity

Loss and loss adjustments expense reserve		
In the course of settlement	<b>\$393,371,809</b>	\$383,017,494
Incurred but not reported	<b>110,999,151</b>	107,661,364
<b>Total Loss and Loss Adjustments Expense Reserves</b>	<b>\$504,370,960</b>	<b>\$490,678,858</b>

Unearned premium reserves	<b>232,617,782</b>	221,227,798
Provision for premium refunds	-	67,881,099
Settlements payable to member companies	<b>23,432,045</b>	36,301,406
Other liabilities	<b>406,258</b>	131,289
<b>Total Liabilities</b>	<b>\$760,827,045</b>	<b>\$816,220,450</b>

### Commitments and contingencies

Members' (deficit) equity	<b>(64,694,178)</b>	(112,616,714)
<b>Total Liabilities and Members' (Deficit) Equity</b>	<b>\$696,132,867</b>	<b>\$703,603,736</b>

## Report of Independent Auditors

The Board of Governors  
North Carolina Reinsurance Facility

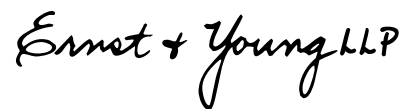
We have audited the accompanying special-purpose balance sheets of the North Carolina Reinsurance Facility (the Facility, a partnership) as of September 30, 2005 and 2004, and the related special-purpose statements of operations, members' (deficit) equity and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in the "Standard Practice Manual," which were approved for use by and within the authority of the Chair of the Facility's Board of Governors and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Reinsurance Facility at September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed by the Facility's Standard Practice Manual.

This report is intended solely for the information and use of the Board of Governors, the member companies and the North Carolina Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.



January 24, 2006



## *Shared Resources*



*Jim Auman*  
Director, Information Technology



*Vicki Godbold*  
Director, Human Resources



*David Sink*  
Director, Finance & Administration



*Tim Lucas*  
Manager, Automobile



*R. Mike Newton*  
Manager, Claims

NORTH CAROLINA RATE BUREAU  
NORTH CAROLINA REINSURANCE FACILITY  
NC INSURANCE GUARANTY ASSOCIATION



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