

NORTH CAROLINA REINSURANCE FACILITY

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ROBERT M. NEWTON
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DAVID E. SINK, JR.
Accounting Manager

MINUTES OF THE TWENTY-SIXTH ANNUAL MEETING OF THE NORTH CAROLINA REINSURANCE FACILITY
HELD AT MID PINES INN & GOLF CLUB, 1010 MIDLAND ROAD, SOUTHERN PINES, NORTH CAROLINA,
OCTOBER 20, 1999

MEMBERS PRESENT

Agricultural Insurance Company
Alliance Assurance Company of America
Allstate Indemnity Company
Allstate Insurance Company
American & Foreign Insurance Company
American Alliance Insurance Company
American National Fire Insurance Company
American Spirit Insurance Company
Automobile Insurance Company of Hartford
Charter Oak Fire Insurance Company
Consolidated American Insurance Company
Eagle American Insurance Company
Farm Bureau Insurance Company of N.C.
Farmington Casualty Company
Farmland Mutual Insurance Company
First Liberty Insurance Corporation
Globe Indemnity Company
Grain Dealers Mutual Insurance Company

Great American Insurance Company
Integon Casualty Insurance Company
Integon General Insurance Corporation
Integon Indemnity Corporation
Integon National Insurance Company
Integon Preferred Insurance Company
Integon Specialty Insurance Company
L M Insurance Corporation
Lancer Insurance Company

Liberty Insurance Corporation
Liberty Mutual Fire Insurance Company
Liberty Mutual Insurance Company

National Casualty Company
Nationwide Agribusiness Insurance Company
Nationwide Mutual Fire Insurance Company
Nationwide Mutual Insurance Company

Nationwide Property & Casualty Insurance Company
New South Insurance Company
Newark Insurance Company
Phoenix Insurance Company
Royal & Sun Alliance Personal Insurance Company
Royal Indemnity Company
Royal Insurance Company of America
Royal Special Risks Insurance Company
Safeguard Insurance Company
Scottsdale Indemnity Company
Sea Insurance Company of America

REPRESENTED BY

Ms. R. Hunter
Mr. N. Eliason
Mr. A. Ivey
Mr. A. Ivey
Mr. N. Eliason
Ms. R. Hunter
Ms. R. Hunter
Ms. R. Hunter
Mr. B. Seagle
Mr. B. Seagle
Ms. J. Neal
Ms. R. Hunter
Mr. R. Batdorff
Mr. B. Seagle
Mr. B. Moock
Mr. D. Bolick
Mr. N. Eliason
Mr. W. Dunham
Mr. C. Watson
Ms. R. Hunter
Mr. A. Lyon
Mr. A. Lyon
Mr. A. Lyon
Mr. A. Lyon
Mr. A. Lyon
Mr. A. Lyon
Mr. A. Lyon
Mr. D. Bolick
Mr. T. Theiler
Mr. R. Yarbrough
Mr. D. Bolick
Mr. D. Bolick
Mr. D. Bolick
Mr. T. Coyne
Ms. C. Watts
Mr. B. Moock
Mr. B. Moock
Mr. B. Moock
Mr. D. Gettles
Mr. M. Groseclose
Mr. B. Moock
Mr. B. Moock
Mr. A. Lyon
Mr. N. Eliason
Mr. B. Seagle
Mr. N. Eliason
Mr. N. Eliason
Mr. N. Eliason
Mr. N. Eliason
Mr. N. Eliason
Mr. B. Moock
Mr. N. Eliason

South Carolina Insurance Company
Standard Fire Insurance Company
State Farm Mutual Automobile Insurance Company

Ms. J. Neal
Mr. B. Seagle
Mr. C. Kiehl
Mr. T. Pemberton
Mr. N. Eliason
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Mr. B. Seagle
Ms. J. Neal
Mr. B. Mook
Mr. B. Mook
Ms. R. Hunter

Sun Insurance Office of American, Inc.
Travco Insurance Company
Travelers Casualty & Surety Company
Travelers Casualty & Surety Company of America
Travelers Casualty & Surety Company of Illinois
Travelers Casualty Company of Connecticut
Travelers Commercial Insurance Company
Travelers Home & Marine Insurance Company
Travelers Indemnity Company
Travelers Indemnity Company of America
Travelers Indemnity Company of Connecticut
Travelers Indemnity Company of Illinois
Travelers Personal Security Insurance Company
Travelers Property Casualty Insurance Company
Universal Insurance Company
Wausau Business Insurance Company
Wausau Underwriters Insurance Company
Windsor Insurance Company

199 other member companies were represented by proxy.

AGENT MEMBERS PRESENT

Jeff Butler
John Russell
Steven Smith
Hutson Wester
John Wooten

OTHERS PRESENT

Insurance Services Office
North Carolina Department of Insurance
Young, Moore, & Henderson

Staff

REPRESENTED BY

Mr. P. Woods
Mr. C. Swindell
Mr. M. Spivey
Mr. M. Strickland
Mr. R. Greer
Mr. M. Newton
Mr. D. Sink
Mr. J. Watkins

The meeting convened as scheduled, Mr. Ivey of Allstate Insurance Company, Chairman of the Board of Governors, presiding.

Mr. Watkins announced that a quorum was present or represented by proxy.

1. The Annual Report

Copies of the Twenty-Sixth Annual Report covering the fiscal year ended September 30, 1999 were distributed. Mr. Greer reviewed and commented on the Report, a copy of which is attached hereto and forms a part of the record.

A motion that the Twenty-Sixth Annual Report be adopted was seconded and carried unanimously.

2. Plan of Operation Amendments

Upon motion duly seconded, the proposed amendments to Articles II, III, IV, IX and XI of the Facility's Plan of Operation, as set forth in the memorandum attached to the agenda for the meeting, were

unanimously adopted.

3. Board of Governors Selection

Mr. Ivey announced that Liberty Mutual Insurance Company, Royal Insurance Company of America and Allstate Insurance Company had been selected respectively by Alliance of American Insurers, American Insurance Association and National Association of Independent Insurers as members of the Board of Governors for the ensuing year.

Great American Insurance Company and Nationwide Mutual Insurance Company were elected for membership on the Board of Governors representing, respectively, the non-affiliated stock and the non-affiliated non-stock members for three-year terms.

Mr. Ivey announced that the Commissioner of Insurance had selected, as agent members of the Board of Governors for the ensuing three years, Messrs. Jeffrey W. Butler of Wilmington, John A. Russell of Winston-Salem, Steven D. Smith of Raleigh, W. Hutson Wester, II of Henderson and John E. Wooten of Wake Forest, and as domestic member insurers Integon Indemnity Corporation and Universal Insurance Company.

4. Chairman's Comments

Mr. Ivey expressed on behalf of the Board of Governors appreciation to the Staff, members of the various Facility committees and Counsel for their efforts during the preceding year.

5. Adjournment

There being no further business the meeting was adjourned.

Respectfully submitted,

John W. Watkins

General Manager

JWW:hc

Enclosure

RF-99-7

11/02/99

October 1, 1999

TWENTY-SIXTH ANNUAL REPORT

This Report covers the activities of the North Carolina Reinsurance Facility during its fiscal year ended September 30, 1999. The Facility became operational October 9, 1973.

MEMBERSHIP

As of September 30, 1999, there were 436 member companies. New members during the year were:

American Safety Casualty Insurance Company	Progressive American Insurance Company
Builders Mutual Insurance Company	Progressive Northern Insurance Company
Commercial Casualty Insurance Co. of Georgia	Sagamore Insurance Company
Design Professionals Insurance Company	Transguard Insurance Co. of America, Inc.
Employees Benefits Insurance Company	Travco Insurance Company
Farmers Insurance Exchange	Travelers Home & Marine Insurance Co.
Frontier Insurance Company	Underwriters Insurance Company
Monroe Guaranty Insurance Company	United Financial Casualty Company
National American Insurance Company	Z C Insurance Company

No companies withdrew from membership during the year.

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BOARD OF GOVERNORS

All present company and agent members of the Board of Governors are completing the third year of three-year terms. Company Board members, by industry group, are:

Alliance of American Insurers - Liberty Mutual Insurance Company
American Insurance Association - Royal Insurance Company of America
National Association of Independent Insurers - Allstate Insurance Company
Non-Affiliated Stock Companies - South Carolina Insurance Company
Non-Affiliated Non-Stock Companies - Nationwide Mutual Insurance Company
North Carolina Domestic Insurer - Atlantic Casualty Insurance Company
North Carolina Domestic Insurer - Integon Indemnity Corporation

Agent members of the Board appointed by the Commissioner of Insurance are Mr. Gil Whitehurst of Raleigh, representing Auto Insurance Agents of North Carolina, Inc.; Mr. Paul Hoover, III of Raleigh, representing Carolinas Association of Professional Insurance Agents, Inc.; Mr. Steven D. Smith of Raleigh, representing Independent Insurance Agents of North Carolina, Inc.; Mr. W. Hutson Wester, II of Henderson; and Mr. John E. Wooten of Wake Forest.

The Commissioner of Insurance continued as ex-officio member of the Board as provided by law. The Board of Governors elected Allstate Insurance Company as Chairman. Three meetings of the Board were held during the year.

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STANDING ADVISORY COMMITTEES

The Accounting and Statistical Committee chaired by The Travelers Indemnity Company, the Audit Committee chaired by Liberty Mutual Insurance Company, the Claims Committee chaired by State Farm Mutual Automobile Insurance Company, the Investment Committee chaired by Nationwide Mutual Insurance Company, the Legal Committee chaired by Liberty Mutual Insurance Company, the Market Committee chaired by The Travelers Indemnity Company, and the Rating Committee chaired by Liberty Mutual Insurance Company continued during the year as advisory committees overseeing the activities of the Facility and formulating recommendations for presentation to the Board of Governors.

AIPSO

AIPSO continued as central processor for the Facility. In addition to maintaining the computerized masterfile which

includes all Facility transactions, AIPSO is responsible for producing or furnishing data for the production of most of the Facility's accounting and statistical reports, furnishing lists of apparent reporting errors as well as other types of reports utilized in the Facility's audit activities, furnishing claim reports used in the Facility's claim quality control work, and printing and distributing the Facility's Standard Practice Manual and its Commercial Automobile Manual of Rules and Rates.

CESSION VOLUME

Exhibit 1 shows the number of cession notices processed by the Facility monthly during the fiscal years ended September 30, 1999, and 1998. Exhibit 2 shows for the same period of time the number of processed cession notices by class and transaction code. In terms of premium, the Facility's share of the market was slightly lower in calendar year 1998 than 1997 (see Exhibit 3).

COMPANY EXEMPTIONS

Under the provisions of G.S. 58-37-55, the Board of Governors may exempt a company from selling and servicing a particular category of business if the company is not qualified to service the business.

During the period covered by this Report there were no new requests for exemption.

Since inception of the Facility, the Board has approved five exemption requests. The two approved exemptions which remained in effect on September 30, 1999 were for American Reinsurance Company to write only excess insurance and for Midwest Mutual Insurance Company to insure only motorcycles and certain types of four-wheel all terrain vehicles.

APPEALS

G.S. 58-37-65 and Article XV of the Plan of Operation provide for appeals to the Board of Governors by an affected insured, agent or company member of the Facility on any alleged improper ruling of the Facility.

During the period covered by this Report, there were two appeals by member companies requesting ceding expense allowances greater than those determined by the usual methodology. One of the appeals was withdrawn and the other remained pending at the end of the period covered by this Report.

FILING ACTIVITIES

The following filings submitted by the Reinsurance Facility were approved or deemed approved by the Commissioner of Insurance during the year ended September 30, 1999:

<u>Effective Date</u>	<u>Subject</u>
December 23, 1998	Personal Auto Policy Program Amendments
January 1, 1999	Endorsement IL 00 17 11 98 - Common Policy Conditions
April 1, 1999	Endorsement NC 03 23 - Miscellaneous Type Vehicle Endorsement
April 1, 1999	New & Revised Commercial Auto Coverage Forms

Rate Revisions

(1) February 1, 1994 Filing

The Twenty-Fifth Annual Report dated October 1, 1998 detailed developments to that date in connection with a private passenger automobile insurance rate filing submitted by the North Carolina Rate Bureau on February 1, 1994 which proposed overall rate level increases of 10.8% for nonfleet private passenger automobiles and 22.4% for motorcycles. The proposed filing included liability rates applicable to clean risks ceded to the Reinsurance Facility and uninsured/underinsured motorists coverage rates for use in connection with nonfleet private passenger automobiles ceded to the Reinsurance Facility.

After conducting a public hearing, the Commissioner of Insurance issued an Order which disapproved the Rate Bureau's filing and approved an overall rate level decrease of 13.8% for nonfleet private passenger automobiles and an overall rate level increase of 10.2% for motorcycles to be implemented effective January 1, 1995 (February 15, 1995 for renewals). The Rate Bureau appealed to the North Carolina Court of Appeals those provisions included in the Commissioner's Order dealing with the disapproval of the nonfleet private passenger automobile insurance rates and implemented rate level changes over the disapproval of the Commissioner that resulted in an overall rate level increase of 4.4% for nonfleet private passenger automobiles. The Rate Bureau did not appeal the ordered rate level changes for motorcycles and implemented the overall rate level increase of 10.2% for motorcycles as ordered by the Commissioner.

On December 17, 1996, the North Carolina Court of Appeals issued an opinion which affirmed part of the Commissioner's Order, vacated part of the Commissioner's Order and remanded the case to the Commissioner for further findings. A Petition by the Rate Bureau to the North Carolina Supreme Court for discretionary review was subsequently denied.

On September 10, 1997, the Commissioner of Insurance issued an Order on Remand which again disapproved the Rate Bureau's filing and approved an overall rate level decrease of 14.6% for private passenger automobiles and an overall rate level increase of 9.3% for motorcycles. The Rate Bureau appealed the Commissioner's Order on Remand to the North Carolina Court of Appeals. On December 29, 1998, the North Carolina Court of Appeals issued an opinion again affirming part of the Commissioner's Order on Remand, vacating part of the Commissioner's Order on Remand and remanding the case to the Commissioner of Insurance for the recalculation of rates due to the Commissioner's improper consideration of investment income from capital and surplus.

Following the Court of Appeals ruling, the Commissioner of Insurance and the Rate Bureau each filed Petitions for Discretionary Review with the North Carolina Supreme Court. On July 22, 1999, the Supreme Court allowed both petitions for the limited purpose of remand to the Court of Appeals for consideration and decision consistent with the Supreme Court's opinion in the 1996 rate filing case. On August 17, 1999, the North Carolina Court of Appeals entered a Certification of Judgment in which it stated that it had determined its previous decision to be consistent with the Supreme Court's opinion in the 1996 rate filing case.

The matter was pending before the Commissioner of Insurance at the close of the period covered by this Report.

(2) May 1, 1995 Filing
April 1, 1996 Filing

The Twenty-Fifth Annual Report dated October 1, 1998 detailed developments to that date in connection with revised rates for nonfleet private passenger automobiles and motorcycles submitted by the North Carolina Rate Bureau on May 1, 1995 which proposed overall rate level increases of 4.5% for nonfleet private passenger automobiles and 11.0% for motorcycles. The proposed filing included liability rates applicable to clean risks ceded to the Reinsurance Facility and uninsured/underinsured motorists coverage rates for use in connection with nonfleet private passenger automobiles ceded to the Reinsurance Facility. Included in that filing were revisions in territorial definitions and codes for private passenger automobile insurance. Because of the potential data issues which could affect the data underlying the filing, the Commissioner agreed that the Rate Bureau would submit an amended filing.

The Rate Bureau submitted an amended filing on April 1, 1996 which included overall rate level increases of 5.7% for nonfleet private passenger automobiles and 10.1% for motorcycles. The amended filing also included (1) revisions to territorial definitions and codes for nonfleet private passenger automobile insurance; (2) revisions to the classification plan factors; (3) revised deductible relativities; and (4) several revised Personal

Auto Manual rules.

After conducting a public hearing, the Commissioner of Insurance issued an Order which disapproved the Rate Bureau's filing and approved an overall rate level decrease of 8.3% for nonfleet private passenger automobiles and an overall rate level increase of 3.2% for motorcycles to be implemented effective December 1, 1996 (January 15, 1997 for renewals).

The Rate Bureau subsequently appealed to the North Carolina Court of Appeals those provisions included in the Commissioner's Order dealing with the disapproval of nonfleet private passenger automobile insurance rates and motorcycle insurance rates and implemented rate level changes over the disapproval of the Commissioner that resulted in an overall rate level increase of 5.5% for nonfleet private passenger automobiles and an overall rate level increase of 9.4% for motorcycles.

On June 16, 1998, the North Carolina Court of Appeals issued an opinion which affirmed part of the Commissioner's Order, vacated part of the Commissioner's Order and remanded the case to the Commissioner for further findings. The Rate Bureau petitioned the Court of Appeals for rehearing but the petition was denied.

Since there was a dissenting opinion with regard to issues pertaining to the consideration of investment income from capital and surplus, the Commissioner of Insurance filed Notice of Appeal with the North Carolina Supreme Court. The Rate Bureau petitioned that Court for discretionary review on issues pertaining to dividends and deviations. The Supreme Court subsequently granted the Bureau's Petition for Discretionary Review. After oral arguments on March 9, 1999, the Supreme Court issued its opinion on June 25, 1999, in which it affirmed the holding of the Court of Appeals as to both issues. The Rate Bureau's Petition for Rehearing was denied.

The matter was pending before the Commissioner of Insurance at the close of the period covered by this Report.

(3) December 15, 1998 Filing

On December 15, 1998, the Reinsurance Facility filed with the Commissioner of Insurance revised (1) basic limit premium rates for liability insurance for commercial cars, garages, zone rated risks and private passenger types not eligible for rating under the North Carolina Personal Auto Manual; (2) bodily injury and property damage liability increased limits tables for such coverage rated under the Facility's Commercial Automobile Insurance Manual; (3) uninsured and underinsured motorists coverage rates; (4) zone rated risks rating factors; and (5) primary and secondary rating factors included in the Commercial Automobile Classification Plan. These revised rates included overall rate increases of 6.7% for commercial cars, 6.0% for garages, 18.2% for private passenger types and 8.7% for zone rated risks. These changes were implemented effective March 1, 1999.

(4) March 5, 1999 Filing

On March 5, 1999, the Rate Bureau filed with the Commissioner of Insurance revised rates for nonfleet private passenger automobiles and motorcycles subject to the jurisdiction of the North Carolina Rate Bureau. The filing proposed (i) an overall statewide average rate level decreases of 4.9%; (ii) a statewide average liability insurance rate level increase of 0.5% for nonfleet private passenger automobiles and a decrease of 0.5% for motorcycles; and (iii) statewide average physical damage insurance rate level decreases of 11.1% for nonfleet private passenger automobiles and a decrease of 10.0% for motorcycles. The proposed filing included liability rates applicable to clean risks ceded to the Reinsurance Facility and uninsured/underinsured motorists coverage rates for use in connection with nonfleet private passenger automobiles ceded to the Reinsurance Facility.

On April 29, 1999, the Commissioner of Insurance issued a Notice of Public Hearing in connection with the filing and scheduled a public hearing to convene on September 27, 1999.

On August 20, 1999, as a result of the Supreme Court's opinion in the 1996 private passenger automobile

insurance rate filing case, the Rate Bureau filed amendments to the March 5, 1999 filing. The filing as amended proposed (i) an overall statewide average rate level decrease of 5.0% for nonfleet private passenger automobiles; (ii) a statewide average liability insurance rate level increase of 1.5% for nonfleet private passenger automobiles and an increase of 3.9% for motorcycles; and (iii) statewide average physical damage insurance rate level decreases of 12.5% for private passenger automobiles and a decrease of 3.4% for motorcycles. As a result of the amendments to the March 5, 1999 filing, the Commissioner of Insurance postponed the public hearing from September 27, 1999 to November 29, 1999.

The matter was pending before the Commissioner of Insurance at the close of the period covered by this Report.

(5) April 15, 1999 Filing

On April 15, 1999, the Reinsurance Facility filed with the Commissioner of Insurance rate level changes for bodily injury and property damage liability and medical payments insurance for nonfleet private passenger automobiles ceded to the Reinsurance Facility. The filed rates applied only to ceded risks other than clean risks as defined in G.S. 58-37-35(1). The rate level changes resulted in an overall rate level decrease of 6.6% for bodily injury, a decrease of 6.6% for property damage and a decrease of 6.9% for medical payments for an overall average statewide rate level decrease of 6.6%. The revised rates were implemented effective July 1, 1999.

FACILITY MANUAL AMENDMENTS

Section 1 of the Standard Practice Manual was amended to reflect technical changes in the law governing the operation of the Reinsurance Facility as a result of enactment of House Bill 296 by the North Carolina General Assembly.

Section 3 of the Standard Practice Manual was amended for editorial reasons.

Section 4 of the Standard Practice Manual was amended to reflect the implementation of a new clean risks allocation surcharge effective July 1, 1999, and to provide an additional option for submitting surcharge detail reports on diskette or CD in PC format.

RECOUPMENT AND ALLOCATION

During a meeting held on April 7, 1999, the Board of Governors voted (1) with respect to nonfleet private passenger vehicles to implement a clean risks allocation surcharge of 1.07% (1.19% including agent compensation) and no loss allocation surcharge, and (2) with respect to other than nonfleet private passenger risks, that no loss assessment be levied against member companies and that no recoupment surcharge be applied to policies written to become effective during the twelve months beginning July 1, 1999.

During a meeting held on July 28, 1999, the Board of Governors voted to adopt the following resolution:

During the meeting held on April 7, 1999, the Board of Governors established a new "clean risks" allocation surcharge to become effective July 1, 1999. Since then, House Bill 296 was enacted by the North Carolina General Assembly and signed into law by the Governor effective June 4, 1999. Among other things, House Bill 296 updates the Reinsurance Facility statutes to rename all "allocation" surcharges as "recoupment" surcharges, because the distinction between recoupment and allocation surcharges is now obsolete. In recognition of and in compliance with the amended statutes, the Board of Governors hereby redesignates the "clean risks" surcharge effective beginning July 1, 1999 as a "clean risks" recoupment surcharge and reaffirms that a "clean risks" recoupment surcharge of 1.07% before loading for agent compensation, 1.19% including agent compensation be applied to all non-fleet private passenger automobile insurance policies during the twelve months beginning July 1, 1999.

A summary of all recoupments and allocations since inception of the program through July, 1999, is set forth in Exhibit 4.

FINANCIAL REPORTS

Financial reports continued to be prepared quarterly and distributed to member companies by circular letter.

INVESTMENTS

The Facility's formal investment program was implemented in 1978 in response to needs created when the Facility law was changed materially in 1977. Allstate Insurance Company, Nationwide Mutual Insurance Company (Chairman) and Royal Insurance Company of America constituted the Investment Committee at the close of the period covered by this Report. That Committee continued during the year overseeing the Facility's investment program managed by Wachovia Corporation.

DESIGNATED AGENT PROGRAM

There were 50 designated agents and two designated carriers at the beginning of the fiscal year. One agent application for designated carrier assignment was received from the Department of Insurance during the year. Eight agents were eliminated from the program during the year through termination of appointment by agent or designated carrier. There were 43 designated agents assigned to two designated carriers as of September 30, 1999. There were no agent applications pending assignment on that date.

With respect to the Facility's annual review of designated business, the Board of Governors directed that the Task force on NCRF Expense Allowances review the designated carriers' expense and indications for ceding and claims expense allowances for designated business; and that the Audit committee review procedures and findings of the audits of designated carriers.

The Audit Committee met on April 27, 1999, and the Task Force on NCRF Expense Allowances met on July 21, 1999.

The Board of Governors, upon the recommendations of the aforementioned advisory Committees concerning their particular area of responsibility, established designated carrier expense allowances for the fiscal year beginning October 1, 1999, and accepted the Report of Audit of Designated Carriers prepared by Facility Staff. The Board of Governors reviewed the eligibility status of each designated carrier and decided that Integon General Insurance Corporation and Unisun Insurance Company were eligible to be reappointed to serve as designated carriers for the Facility.

Subsequently, the Facility executed new contracts with the aforementioned two companies to serve as designated carriers to become effective October 1, 1999.

CLAIMS ACTIVITY

During the fiscal year ended September 30, 1999, the Claims Staff, pursuant to general directions from the Claims Committee, reviewed 601 claim files involving 2,123 claim features ceded to the Facility from 45 ceding member companies. Each of the files reviewed was evaluated as provided in the NCRF Claim Quality Review Program as to promptness of contact, application of coverage, promptness and adequacy of investigation, verification of damages, recognition of recovery potential, adequacy of reporting to file, adequacy of supervision, correctness of analysis and evaluation, and negotiation and settlement performance. Analysis of these audit activities indicated that ceding member companies were generally in compliance with established claim adjustment practices and procedures in handling claims on ceded risks as required by the Rules of Operation of the Facility. Any areas of claim performance considered sub-standard were brought to the attention of the ceding company. No intentional deviation from the Rules of Operation was noted.

In addition to quality of claim work, each claim file was reviewed to ascertain that loss transactions reported to the Facility

were eligible for cession, accurate and supported by proper documentation. Correction of any dollar accounting errors were required to be made immediately, and any systematic deviations or questionable trends noted as a result of these audits were brought to the carriers' attention for remedial action and to the attention of the appropriate Facility Advisory Committee for review.

Special claim audits were conducted in the following areas: (1) bodily injury and property damage claims in excess of minimum limits, (2) claim and policy file review to verify eligibility of bodily injury and property damage losses reported with accident dates within the first 30 days of the policy term, (3) claim file review to determine if claim adjustment expense payments were miscoded as loss payments or included in claim payments, (4) claim file review to determine if proper effort was being made concerning salvage and subrogation recovery and credit therefor to the Facility, (5) statistical analysis of pending claims versus pending suits on ceded business from all ceding member companies, and (6) review and analysis of monthly losses paid reports and quarterly losses outstanding reports from all ceding member companies. Any problem areas or discrepancies noted as a result of these audits were brought also to the carriers' attention for corrective action.

In addition to the above claim audits, the Facility Staff was directed by the Board of Governors to conduct field audits of each designated carrier's claims and processing activities in connection with designated agent business. The companies audited were Integon General Insurance Corporation and Unisun Insurance Company. The audits were conducted in March 1999 at the Offices of the respective companies. Analysis of these audits indicated that claims handling by the designated carriers was generally satisfactory and in compliance with established claim adjustment standards. No intentional or systematic deviation from established claim adjustment practices and procedures or from the Rules of Operation was noted.

There were no meetings of the NCRF Claims Committee held during the period covered by this Report.

Information and assistance was provided, whenever requested during the year, to member company personnel in connection with Facility claim matters and accounting procedures respecting claims.

AUDIT ACTIVITY

The Facility Staff continued its audit activities, under the general direction of the Audit Committee, in the following principal areas:

- (1) Reports on the activities of designated agents required by Section 6 of the Standard Practice Manual were carefully reviewed. Any problem areas noted were followed up with member companies to insure that corrective action was taken.
- (2) The 1997 and 1998 expense experience reports submitted by member companies were reviewed and analyzed. Reporting companies were requested to explain or correct any discrepancy noted. Corrections were made prior to calculation of Facility ceding and claims expense allowances.
- (3) Cession notice correction forms were reviewed and actual prior cession in each such case was verified.
- (4) Member company documentation was reviewed and adjustments were made as appropriate where charges for late premium reporting and error list penalties were disputed.
- (5) Continued emphasis was placed on checking the accuracy of allocation surcharge totals reported by member companies and verifying that allocation surcharges on both ceded and non-ceded policies were properly applied.
- (6) In connection with the annual audit of the Facility financial statements by independent auditors, the Staff provided assistance wherever possible, including review of documentation and evaluation of controls at member companies.
- (7) Field audits were conducted of each designated carrier's claims and processing activities in connection with designated business.
- (8) A sample review of ceded policy files and claim files was conducted to assure that transactions reported to the Facility were supported by proper documentation and that the Facility Rules of Operation were being followed.
- (9) In connection with the rating of "all other" risks ceded to the Facility which qualified for experience rating, the Staff

provided assistance in obtaining the necessary experience rating data and in the calculation of experience modifications.

(10) Special audits of questionable paid losses were performed to insure that all such items were properly resolved and that reversals were submitted by member companies for any such losses found to be ineligible for cession.

(11) Advice and assistance were provided to member company personnel concerning Facility reporting and error correction procedures. Staff conducted several training sessions for member company personnel at the Facility Office.

The Staff continued to review reports, error lists, cession notices and correspondence on a day-to-day basis for any indication of non-compliance with the Rules of Operation. Any problem areas noted were brought to the attention of member companies for remedial action.

LEGISLATION

The North Carolina General Assembly met in 1999 and enacted the following legislation that directly or indirectly affects the operations of the Reinsurance Facility.

S.B. 756 - Increases the minimum financial responsibility limits to \$30,000/\$60,000 for bodily injury and \$25,000 for property damage. This Act becomes effective July 1, 2000 and applies to new and renewal policies written to become effective on or after that date.

H.B. 280 - An Act to make technical, clarifying, and other changes to the motor vehicle laws, including a section relating to the electronic transmission of data to the Department of Motor Vehicles regarding the termination and replacement of auto insurance coverage. The changes regarding the electronic transmission of data to the Department of Motor Vehicles become effective October 1, 2000 and the remaining changes become effective October 1, 1999.

H.B. 991 - Provides that uninsured motorists/underinsured motorists coverage shall insure that portion of a loss uncompensated by any workers' compensation law and the amount of an employer's lien determined pursuant to G.S. 97-10.2(h) or (j). This Act becomes effective October 1, 1999 and applies to policies issued or renewed on or after that date.

H.B. 296 - Repealed obsolete or unnecessary statutes, including the Reinsurance Facility law, and made technical and clarifying amendments and corrections to various statutes. This Act became effective May 24, 1999, except the section addressing changes in the workers' compensation loss costs, which becomes effective September 1, 1999.

OPERATING EXPENSES

The following is a comparison of operating expenses for the last two fiscal years:

	Year <u>1999</u>	Year <u>1998</u>
Salaries & Administration	\$ 566,733	\$ 542,241
Payroll Taxes	46,741	46,756
Rent and Alterations	63,949	67,021

Computer Depreciation	3	57
Software & Systems	8,436	6,432
Postage	11,587	8,343
Printing & Supplies	11,961	12,128
Furniture & Equipment	24,418	59,260
Telephone	7,521	9,530
Employee Benefits	153,742	154,358
Legal Expenses	37,385	34,777
Audit	100,440	95,449
Data Processing Services	305,494	337,501
Other Outside Services	543,596	521,845
Other Expenses	<u>15,168</u>	<u>15,346</u>
Total	<u>\$1,897,174</u>	<u>\$1,911,044</u>

CONCLUSION

Members of the Facility Staff join me in expressing grateful appreciation to those who served on the Board of Governors and advisory committees; members of the Staffs of Insurance Services Office and AIPSO; and members of the law firm of Young, Moore and Henderson. Working with these highly skilled professional people continues to be a rewarding experience.

Respectfully submitted,

John W. Watkins
General Manager

JWW:lg

Enclosures

Exhibit 1

NORTH CAROLINA REINSURANCE FACILITY

Cession Notices* Processed Monthly

<u>Month</u>	<u>Year Ended</u> <u>9/30/99</u>	<u>Year Ended</u> <u>9/30/98</u>
October	200,470	211,580
November	200,725	206,108
December	177,699	166,904

January	199,718	200,326
February	216,818	226,860
March	206,400	206,465
April	218,835	216,719
May	197,277	190,347
June	181,300	185,322
July	203,063	210,125
August	195,567	217,403
September	<u>199,423</u>	<u>204,261</u>
Total	<u>2,397,295</u>	<u>2,442,420</u>

* Excluding Transaction Code 4 -- Policy or Renewal Not Taken.

Exhibit 2

NORTH CAROLINA REINSURANCE FACILITY

Cession Notices Processed by Class and Type

<u>By Class</u>	Year Ended <u>9/30/99</u>	Year Ended <u>9/30/98</u>
Private Passenger Non-Fleet	2,425,949	2,466,876
All Other Risks	95,171	92,135
Combination of Above	<u>1,915</u>	<u>1,633</u>
Total Notices Processed	<u>2,523,035</u>	<u>2,560,644</u>
<u>By Type</u>		
Binder or New Policy	691,099	691,754
Subsequent Renewals	1,672,213	1,714,248

Mid-Term Cessions	33,983	36,418
Policy or Renewal Not Taken	<u>125,740</u>	<u>118,224</u>
Total Notices Processed	<u>2,523,035</u>	<u>2,560,644</u>

Exhibit 3

**NORTH CAROLINA AUTOMOBILE LIABILITY INSURANCE
WRITTEN PREMIUMS BY CALENDAR YEAR**

(Thousands of Dollars)

<u>(1)</u> <u>Calendar Year</u>	<u>(2)</u> <u>Total N.C. Direct Written Premium</u>	<u>(3)</u> <u>NCRF Ceded Written Premium</u>	<u>(4)</u> <u>(3)/(2)</u>
1975	\$320,161	\$ 74,053	.231
1976	340,110	89,147	.262
1977	362,035	99,642	.275
1978	398,550	118,227	.297
1979	443,581	133,645	.301
1980	488,983	141,754	.290
1981	515,649	140,465	.272
1982	544,376	150,129	.276
1983	593,253	152,077	.256
1984	634,560	155,434	.245
1985	758,232	186,310	.246
1986	951,085	239,900	.252
1987	1,067,169	287,809	.270
1988	1,258,719	341,431	.271
1989	1,421,243	386,390	.272
1990	1,547,832	414,208	.268
1991	1,671,347	438,631	.262
1992	1,771,361	466,693	.263
1993	1,843,534	473,768	.257
1994	1,944,289	510,487	.263
1995	2,144,433	557,126	.260
1996	2,200,938	577,528	.262
1997	2,253,254	616,497	.274
1998	2,329,153	619,752	.266

NCRF RECOUPMENTS AND ALLOCATIONS							
Type	Loss Period	Applicable Policies Effective	to	Which Policies?	% Sur-charge	Amount of Loss (Millions)	Recovered Thru 7/31/99 (Thousands)
Prior Direct				All Facility #	18.6%		
Prior Direct				All Facility #	16.4%		
Prior Assmt.				All Facility #	13.3% *		
Clean Recoupment				All Pointed SDIP	1.1%		
Clean Recoupment				All Subj. to SDIP	1.4%		
Clean Recoupment				All Subj. to SDIP	1.8% *		
Clean Recoupment				All Subj. to SDIP	4.0% *		
Clean Recoupment				All Subj. to SDIP	4.2% *		
Clean Recoupment				All Pointed SDIP	4.3% *		
Clean Recoupment	10/1/77 - 9/30/78			All Pointed SDIP	5.7% *		
Clean Recoupment	10/1/78 - 6/30/79			All Pointed SDIP	8.1% *		
Clean Recoupment	10/1/78 - 6/30/79	3/1/80 - 2/28/81		All Pointed SDIP	8.8% *		
Clean Recoupment		3/1/81 - 9/30/81		All Pointed SDIP	10.8% *	\$31.4	\$25,494
Clean Recoupment		10/1/81 - 2/28/82		All Pointed SDIP	0.6% *	15.8	11,661
Clean Recoupment		3/1/80 - 2/28/81		All Pointed SDIP	8.6% *	14.3	8,314
Clean Recoupment		3/1/81 - 9/30/81		All Pointed SDIP	2.8% *	--	4,549
Clean Recoupment		10/1/81 - 3/31/82		All Pointed SDIP	14.6% *	--	3,147
Clean Allocation		4/1/82 - 3/31/83		All Pointed SDIP	3.65% *	--	1,511
Clean Recoupment		4/1/83 - 3/31/84		All Pointed SDIP	12.60% *	--	6,558
Clean Allocation		4/1/84 - 3/31/85		All Pointed SDIP	3.85% *	--	6,975
Clean Recoupment		4/1/85 - 3/31/86		All Pointed SDIP	8.60% *	--	7,151
Clean Recoupment		4/1/86 - 3/31/87		All PPNF	8.60% *	--	10,643
Clean Allocation		4/1/87 - 3/31/88		All Pointed SDIP	6.79% *	--	16,495
Clean Recoupment		4/1/88 - 6/30/88		All Pointed SDIP	6.79% *	--	22,028
Clean Recoupment		7/1/88 - 6/30/89		All PPNF	10.23% *	--	7,697
Clean Allocation		7/1/88 - 6/30/89		As Per SDIP	5.68% *	--	6,505
Clean Recoupment		7/1/89 - 6/30/90		All PPNF	5.00% *	--	27,573
Clean Allocation		7/1/89 - 6/30/90		As Per SDIP	5.00% *	--	32,242
Clean Allocation		7/1/90 - 6/30/91		As Per SDIP	2.98% *	--	46,012
Clean Allocation		7/1/90 - 6/30/91		As Per SDIP	2.98% *	--	46,518

φ	Clean Risk			7/1/90	-	6/30/91	All	PPNF	3.71%	--	43,509	
	Recoupment						As	Per	*			
φ	Clean Risk			7/1/91	-	6/30/92	SDIP		4.11%	--	53,835	
	Allocation								*			
φ	Clean Risk			7/1/91	-	6/30/92	All	PPNF		--	32,076	
	Recoupment						As	Per	3.63%	--	103,103	
							SDIP		*			
φ	Clean Risk			7/1/92	-	6/30/93	All	PPNF	1.07%	--	38,778	
	Allocation								*			
φ	Clean Risk			7/1/93	-	6/30/94	As	Per	5.3%	--	88,755	
	Allocation						SDIP			--	20,302	
φ	Clean Risk			7/1/95	-	6/30/96	All	PPNF	5.3%	--	57,818	
	Allocation									--	73,055	
φ	Clean Risk			7/1/96	-	6/30/97	All	PPNF	4.9%	--	83,142	
^	Recoupment						All	PPNF	8.3%	--	74,946	
		7/1/79	-	9/30/79			All	PPNF	5.7%	--	2,276	
	Clean Risk			7/1/98	-	6/30/99	All	PPNF	0.4%	--	6,071	
	Recoupment										6,453	
				10/1/79	-		All	PPNF			5,540	
				12/31/79		7/1/99	-	6/30/00			10,887	
φ	Qtrly. Assessment	1/1/80	-	3/31/80	4/1/80	-	6/30/80	All	9.7%	6.6	6,507	
									*		643	
φ	Qtrly. Assessment	4/1/80	-	6/30/80	7/1/80	-	9/30/80	All	9.7%	6.8	3,682	
											4,141	
φ	Qtrly. Assessment	7/1/80	-	9/30/80	10/1/80	-	12/31/80	All	5.5%	7.2	9,337	
									*		21,399	
φ	Qtrly. Assessment			10/1/80	-			All	12.6%	13.4	32,954	
				12/31/80	1/1/81	-	3/31/81	All			35,956	
φ	Qtrly. Assessment	1/1/81	-	3/31/81	4/1/81	-	6/30/81	All	20.2%	9.4	5,542	
									*		56,131	
φ	Qtrly. Assessment	4/1/81	-	6/30/81	7/1/81	-	9/30/81	All	18.6%	6.1	12,984	
									*		80,772	
φ	Qtrly. Assessment	7/1/81	-	9/30/81	10/1/81	-	12/31/81	All Pointed SDIP	2.8%	6.6	4,872	
									*		25,100	
φ	Qtrly. Assessment			10/1/81	-			All			732	
				9/30/82	1/1/82	-	3/31/82	All Pointed SDIP	26.9%	15.7	19,722	
									*		81,415	
φ	Qtrly. Assessment			10/1/82	-	4/1/82	-	3/31/83	All	5.6%	4.6	4,766
				9/30/83	4/1/83	-	3/31/84	All Pointed SDIP			20,722	
φ	Qtrly. Assessment**			10/1/83	-	4/1/84	-	3/31/85	All	31.4%	45.2	35,956
				9/30/84	4/1/84	-	3/31/85	All	*		1.8%	4.7
φ	Loss Assessment			10/1/77	-	4/1/85	-	3/31/86	All Pointed SDIP	1.8%	4.7	5,542
				9/30/84								69.7
φ	Loss Assessment**			10/1/84	-	4/1/85	-	3/31/86	All	35.6%	69.7	56,131
				9/30/85	4/1/86	-	3/31/87	All Pointed SDIP				8.6
φ	Loss Assessment**			10/1/84	-	4/1/86	-	3/31/87	All	1.3%	8.6	12,984
				9/30/85	4/1/86	-	3/31/87	All	*			80.0
φ	Loss Assessment**			10/1/85	-	4/1/87	-	3/31/88	All Pointed SDIP	1.9%	80.0	80,772
				9/30/86								4.6
φ	Loss Assessment**			10/1/85	-	4/1/87	-	3/31/88	All	25.5%	4.6	4,872
									*			23.4
φ	Loss Assessment**			10/1/85	-	4/1/87	-	3/31/88	All Except PPNF	1.5%	23.4	25,100
				9/30/86	4/1/88	-	6/30/88					1.2
φ	Loss Assessment**			10/1/86	-	4/1/88	-	6/30/88	All	1.8%	1.2	732
				9/30/87	4/1/88	-	6/30/88	All Pointed SDIP				18.3
φ	Loss Assessment			10/1/86	-	7/1/88	-	6/30/89	All	9.4%	73.3	81,415
				9/30/87					*			0.19%
φ	Loss Assessment**			10/1/86	-	7/1/88	-	6/30/89	All Except PPNF	0.19%	6.2	4,766
				12/31/87	7/1/88	-	6/30/89					0.67%
φ	Loss			12/31/87	7/1/88	-	6/30/89			20.3	20,722	

φ	Assessment**				All Pointed SDIP	*		
		10/1/86 - 12/31/87	7/1/89 -	6/30/90			30.5	29,013
φ	Loss Assessment**							
		10/1/86 - 12/31/87	7/1/89 -	6/30/90	All Except PPNF		2.5	2,358
φ	Loss Assessment**							
		10/1/86 - 12/31/87	7/1/90 -	6/30/91	PPNF		2.5	2,292
	Loss Allocation**	1/1/88 - 12/31/88	7/1/90 -	6/30/91	All Pointed SDIP			
	Loss Assessment**	1/1/88 - 12/31/88						
	Loss Assessment**	1/1/89 - 12/31/89			All Except PPNF			
	Loss Assessment**	1/1/89 - 12/31/89			All PPNF			
	Loss Allocation**				All Pointed SDIP			
	Loss Assessment**				All Except PPNF			
	Loss Allocation**				All PPNF			
	Loss Assessment**				As Per SDIP			
					All PPNF			
					As Per SDIP			

* ** φ ^ Except certain policies produced by designated agents. Excluding agent compensation or commission. Includes shortfalls from prior recoupments. These surcharges closed in prior years. This surcharge closed February 28, 1999.