



MINUTES OF THE FORTY-FOURTH ANNUAL MEETING OF THE NORTH CAROLINA REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA, OCTOBER 12, 2017

MEMBERS PRESENT

Allstate Insurance Company  
 Allstate Indemnity Company  
 Allstate Northbrook Indemnity Company  
 Allstate Property & Casualty Insurance Company  
 Allstate Vehicle and Property Insurance Company  
 Encompass Indemnity Company  
 Esurance Insurance Company  
 American Millennium Insurance Company  
  
 Atlantic Casualty Insurance Company  
 Auto Owners Insurance Company  
 Auto Owners Specialty Insurance Company  
 Owners Insurance Company  
 Falls Lake National Insurance Company  
 Stonewood Insurance Company  
 Hartford Casualty Insurance Company  
 Hartford Accident & Indemnity Company  
 Hartford Fire Insurance Company  
 Hartford Insurance Company of the Midwest  
 Hartford Underwriters Insurance Company  
 Maxum Casualty Insurance Company  
 Property & Casualty Insurance Company of Hartford  
 Sentinel Insurance Company, Ltd.  
 Trumbull Insurance Company  
 Twin City Fire Insurance Company  
 Integon General Insurance Corporation  
 Agent Alliance Insurance Company  
 AmTrust Insurance Company of Kansas, Inc.  
 Century National Insurance Company  
 Corepointe Insurance Company  
 First Nonprofit Insurance Company  
 Imperial Fire & Casualty Insurance Company  
 Integon Casualty Insurance Company  
 Integon Indemnity Corporation  
 Integon National Insurance Company  
 Integon Preferred Insurance Company  
 Milwaukee Casualty Insurance Company  
 National General Insurance Company

REPRESENTED BY

Laura Hoffman  
  
 Bryan Woods  
 Richard Yarborough  
 Mark Caughron  
 Sonja Maki  
  
 Steve Hartman  
 Greg Spray  
 Eric Mize  
 Dan Post  
  
 Art Lyon  
 Rick Pierce

National General Insurance Online, Inc.	
New South Insurance Company	
Security National Insurance Company	
Sequoia Insurance Company	
Southern Insurance Company	
Technology Insurance Company, Inc.	
Wesco Insurance Company	
Nationwide Mutual Insurance Company	Gary Morris
Allied Insurance Company of America	Mendi Riddle
Allied Property & Casualty Insurance Company	Eric Ryan
AMCO Insurance Company	Nick Sizemore
Crestbrook Insurance Company	
Depositors Insurance Company	
Farmland Mutual Insurance Company	
Freedom Specialty Insurance Company	
Harleysville Mutual Insurance Company	
Harleysville Preferred Insurance Company	
Harleysville Worcester Insurance Company	
National Casualty Company	
Nationwide Affinity Insurance Company of America	
Nationwide Agribusiness Insurance Company	
Nationwide General Insurance Company	
Nationwide Insurance Company of America	
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
Scottsdale Indemnity Company	
Titan Indemnity Company	
Victoria Automobile Insurance Company	
Victoria Fire & Casualty Company	
North Carolina Farm Bureau Mutual Insurance Co.	Roger Batdorff
Farm Bureau Insurance of North Carolina, Inc.	
Pennsylvania National Mutual Casualty Ins. Company	Pat Lovell
Penn National Security Company	
Permanent General Assurance Corporation of Ohio	Sondra Cavanaugh
American Family Mutual Insurance Company	
American Standard Insurance Company of Wisconsin	
Midvale Indemnity Company	
Sentry Insurance A Mutual Company	Peter Sampson
Dairyland Insurance Company	
Florists Mutual Insurance Company	
Middlesex Insurance Company	
Peak Property & Casualty Insurance Corporation	
Sentry Casualty Company	
Sentry Select Insurance Company	
State Farm Mutual Automobile Insurance Company	Alan Bentley
Travelers Indemnity Company	Kirsten Forbes
Automobile Insurance Company of Hartford	
Charter Oak Fire Insurance Company	
Discover Property & Casualty Insurance Company	
Farmington Casualty Company	
Fidelity & Guaranty Insurance Company	

Fidelity & Guaranty Insurance Underwriters, Inc.  
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 Mercury Insurance Company  
St. Paul Protective Insurance Company  
Standard Fire Insurance Company  
The Travelers Casualty 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 Casualty Company  
Travelers Commercial Insurance Company  
Travelers Constitution State Insurance Company  
Travelers Home & Marine Insurance Company  
Travelers Indemnity Company of America  
Travelers Indemnity Company of Connecticut  
Travelers Personal Insurance Company  
Travelers Personal Security Insurance Company  
Travelers Property Casualty Company of America  
Travelers Property Casualty Insurance Company  
United States Fidelity & Guaranty Company  
USAA Casualty Insurance Company  
Garrison Property & Casualty Insurance Company  
USAA General Indemnity Company  
United Services Automobile Association

Lisa Sukow

OTHERS PRESENT

Young Moore and Henderson, P.A.

North Carolina Department of Insurance

Insurance Services Office

Wellington Management

Able Auto Insurance  
Adcock Agency, Inc.  
Green & Wooten Insurance  
Jones Insurance Agency, Inc.  
Litaker Insurance  
Marsh & McLennan  
Mountcastle Insurance  
Pinehurst Insurance

REPRESENTED BY

Glenn Raynor  
Mickey Spivey

Fred Fuller  
Kevin Conley

Jared Smollik

Chris Holleman

Jeff Butler  
John Miller  
John E. Wooten, III  
Wortham W. Boyle  
Justin Litaker  
Tim Ward  
Andy Calvert  
Rob McVay

Wester Insurance Agency  
Public Members – NCRF Board of Governors  
Honored Guests

Hutson Wester  
Steve Smith  
Tim Lucas  
Mike Newton  
Dave Sink  
Mike Strickland  
Jannet Barnes  
Joanna Biliouris  
Terry Collins  
Edith Davis  
Linda Davis  
Ray Evans  
Vicki Godbold  
Keri Johnson  
Donna Kallianos  
Frank Lonnett  
Andy Montano  
Karen Ott  
Rebecca Williams

Staff

Two-hundred and twenty (220) other companies were represented by proxy.

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

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

1. Minutes of the last meeting

There were no outstanding minutes to be approved.

2. Annual Report

Copies of the Forty-Fourth Annual Report for the fiscal year ended September 30, 2017 were distributed, a copy of which is attached and forms a part of these minutes. The members were also advised that the Report would be available on the Facility website under its own link from the homepage. Mr. Evans offered general observations from the past year and reported on progress made towards the current year's goals, highlighting the focus on managing members' equity. He also shared his excitement with the recent changes and additions in the Facility staff, Edith Davis – CFO, Terry Collins – COO, and Andy Montano – Auto Manager.

3. Chairman's Comments

Ms. Riddle offered her thoughts on the events of the preceding year, especially noting the efforts to favorably impact the members' equity balance. She recognized the work of the Board, the various participating committees, staff, and counsel for their efforts on behalf of the Facility and thanked Ray Evans for his continued leadership.

4. Announcement of Board members for the three-year term beginning October 2017

Mr. Collins announced that Travelers Indemnity Company had been selected by the American Insurance Association and that GEICO Indemnity Company had been selected by the Property and Casualty Insurance Association of America as members of the Board of Governors for the ensuing three years. Mr. Collins announced that Allstate Insurance Company had been elected for membership on the Board of Governors representing the nonaffiliated stock members and that Nationwide Mutual Insurance Company had been elected representing the non-affiliated nonstock members for a three-year term.

Mr. Collins also announced that the Commissioner of Insurance had selected, as agent members of the Board of Governors for the ensuing three years, Jeffrey W. Butler of Wilmington, Wortham M. Boyle of Garner, Andy Calvert of Lexington, Justin M. Litaker of Charlotte and John Miller of Cary; and as domestic member insurers Integon Indemnity Corporation and NC Farm Bureau Mutual Insurance Company, also for three year terms. He further advised that public members J. David Walker of Lumberton and Steve Smith of Raleigh appointed by the Governor continue to serve at the Governor's pleasure; and that Atlantic Casualty Insurance Company had been elected as the representative from the industry at large, for a three-year term.

5. Recognition

Mr. Evans announced the retirement of Dave Sink as of May 31, 2017. Mr. Evans acknowledged Mr. Sink's 40 years of leadership, expertise and support to our organizations. He also thanked outgoing Board members Universal Insurance Company (Jim McCafferty), agents Rob McVay, Tim Ward, John E. Wooten III, and W. Hutson Wester II for their efforts and valued service to the Facility. Each was presented a commemorative plaque as a sign of appreciation.

6. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Terry F. Collins

Chief Operating Officer

North Carolina Reinsurance Facility

TFC/lad

Enclosure

RF-17-14



# Reinsurance Facility

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## General Organizational Information

NCRF Main Phone Number ..... 919-783-9790  
 Facsimile ..... 919-783-0355  
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 Physical Address ..... 2910 Sumner Blvd.  
 Raleigh, NC 27616

## Management Contacts

### NCRF Staff

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 Terry Collins ..... Chief Operating Officer  
 919-582-1076 ..... [tfc@ncrb.org](mailto:tfc@ncrb.org)  
 Jannet Barnes ..... Manager, Compliance  
 919-582-1022 ..... [jbb@ncrb.org](mailto:jbb@ncrb.org)  
 Andy Montano ..... Manager, Automobile  
 919-582-1021 ..... [afm@ncrb.org](mailto:afm@ncrb.org)  
 Donna Kallianos ..... Manager, Claims  
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 Edith Davis ..... Chief Financial Officer  
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 Vicki Godbold ..... Chief Human Resources Officer  
 919-645-3170 ..... [vcg@ncrb.org](mailto:vcg@ncrb.org)  
 Shelley Chandler ..... Chief Information Officer  
 919-582-1057 ..... [src@ncrb.org](mailto:src@ncrb.org)

## 2017 Annual Meeting

The annual meeting of member companies of the North Carolina Rate Bureau will be held October 12, 2017, at the Grandover Resort and Conference Center, Greensboro, North Carolina.



## General Manager's Report



**Ray Evans**  
General Manager

There is a certain routine to Reinsurance Facility activity each year. A plan is prepared that encompasses the usual, attempts to anticipate and respond to challenges, but always in the background includes provisions for moving the organization forward towards longer term goals and objectives that include a comprehensive electronic environment; a well-trained, professional workforce; a strong financial position; faithful compliance with statutes and regulations and most important, satisfactory fulfillment of the purpose of the

Facility in enabling a North Carolina private passenger auto insurance market so that carriers “can take all eligible comers for liability insurance.”

This past year, and in fact all the years since 2013, has been a management test as our “routine” has changed. Sure, the reports still go out, meetings are held, questions are answered and bills are paid, all with attendant problems that have to be resolved. But, for these past few years, lurking in the background has been significant angst concerning the Facility’s financial status. The confluence of countrywide deterioration in private passenger auto and commercial auto experience due to distracted drivers, impaired drivers, repair cost inflation and more miles driven and, unique to North Carolina, policyholders that have found ways to pretend to be residents of the state has taken a toll on our financial position. While we are not where we would like to be, there is a mechanism in place to address the recent poor experience, and those actions have been initiated and will take some time to recover fully the operating losses of recent years. Additional details on finances are included a little later in this report.

Another challenge still unfolding is the replacement of the Chief Financial Officer. Dave Sink, who has been widely respected for his work as CFO, decided to retire May 31 after 38 years on the job and enjoy more time with his family and other interests, including church work, mission work and golf. Edith Davis, previously the Chief Operating Officer, has been promoted to take his place. Taking Edith’s place as COO is Terry Collins, a 32-year property and casualty insurance industry veteran. Both are and will continue to be great at their new jobs.

A little more about Edith and her leadership. She is a graduate of Meredith College and a Certified Public Accountant and has worked for the Facility for more than 25 years. Some of her notable achievements include managing the development and implementation of EDGE, the Facility’s operating system, and for the past few years, guiding the Facility through the worst of the financial challenge, including managing the effective and prompt operation of the clean risk recoupment surcharge and loss recoupment surcharge, the timely filing of rates for “other than clean” and commercial auto policies and working with a broader group of stakeholders to develop statutory changes so that non-eligible risks find it more difficult to take advantage of North Carolina’s commercial auto programs.

This past year, with good leadership, the efforts of trained, experienced and dedicated associates, the counsel of the Board and the help of the many member carrier experts working on committees and task forces, the Facility again successfully responded to a host of challenges. While the coming year will see many more changes and challenges, a strong staff focusing on fundamentals will meet them successfully.

## Message from the Chairman

As I reflect on this past year, I think of the word “change” – in the insurance industry, the Department of Insurance and the Facility staff – it really is a lot to manage in terms of people and issues. The team – staff, counsel, Board of Governors and committee members – have done a terrific job keeping the focus on the business of the Facility over the past year.

Listed below are some of the highlights for the year:

- During the year, the Facility continued its growth string posting increases in cessions, policies in force and liability premium market share. By line of business, private passenger auto posted the increases, overshadowing shrinkage in commercial auto.
- Facility automobile loss trends were unfavorable but mirrored industry trends seen countrywide. The end result was a further reduction in members’ equity as losses outpaced revenue.
- The clean risk surcharge was increased and a loss recoupment surcharge implemented in October 2016 for private passenger auto policies to help alleviate the deficit in members’ equity resulting from deteriorated private passenger experience.
- While we have recently seen some favorable short-term trends in PPA (driven by the increased recoupment revenue), the changes in Commercial Auto rules and rates from 2016 have not been enough to turn around the poor claims results. The future impact of these remains to be seen.
- Special recognition goes out to several Facility associates and outside counsel who retired during this year: former CFO David Sink, Automobile Manager Tim Lucas, Claims Manager Mike Newton and Counsel Mike Strickland and Robert Paschal. Thank you for all your efforts and many years of service.
- Welcome to several new associates in key management roles: Andrew Montano, Automobile Manager (replaced Tim Lucas); Donna Kallianos, Claims Manager (replaced Mike Newton) and Terry Collins, Chief Operating Officer (replaced Edith Davis).
- The 2015-2016 operating expenses were less than the annual budget for the same period, and the operating budget for 2016-2017 fiscal year was essentially flat over the prior year budget. The operating expenses continue to be less than 1% of the Facility annual premium.
- Our investment portfolio again outperformed the benchmark despite the continued decline in balance necessitated by the distributions generated by net operating losses.

I am so proud of this team and the diligence they have shown in responding to reductions in members’ equity and insuring that we are well positioned for the future. I am truly honored to serve with this group of professionals and am excited to partner alongside the leadership team as we continue to insure that all eligible risks have access to automobile liability coverage while addressing the needs of our member companies.

**Mendi Riddle**  
Nationwide Insurance Company  
*Chairman*



# Board of Governors

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

Agent Members	Representative
Apptd. by the Commissioner of Insurance	W. Hutson Wester, II
Apptd. by the Commissioner of Insurance	John E. Wooten, III
Auto Insurance Agents of North Carolina	Jeffrey W. Butler
Independent Insurance Agents of NC	Robert M. McVay
Independent Insurance Agents of NC	Tim Ward

Members	Representative
Allstate Insurance Co.	Laura Hoffman
Atlantic Casualty Insurance Co.	Robbie Strickland
GEICO Indemnity Co.	Andrea Bradley
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co.*	Mendi Riddle
Travelers Indemnity Co.	Kirsten Forbes
Universal Insurance Co.	Jim McCafferty

Public Members	Ex-officio Member
J. David Walker, Lumberton, NC	Mike Causey, Commissioner of Insurance
Steven Smith, Raleigh, NC	

# 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.

## Claims Committee

Members	Representative
Allstate Insurance Co.	Todd Lonker
GEICO Indemnity Co.	Luke Brady
Hartford Indemnity Co.	Lorraine Karas
Nationwide Mutual Insurance Co.	Jarrod Corbacio
State Farm Mutual Automobile Ins Co.*	David Stoller
Travelers Indemnity Co.	Ryan Pirozzi
United Services Automobile Assoc.	Michael Cox
Agent	W. Hutson Wester, II
Agent	John E. Wooten, III

## Audit Committee

Members	Representative
Liberty Mutual Insurance Co.*	Judi Gonsalves
NC Farm Bureau Mutual Insurance Co.	Brian Top
Nationwide Mutual Insurance Co.	Eric Ryan
Pennsylvania Nat Mut Casualty Ins Co.	Charles J. Uckele
State Farm Mutual Automobile Ins Co.	Alan Bentley
Travelers Indemnity Co.	Jennifer Baurle
Agent	Robert M. McVay

## Investment Committee

Members	Representative
Allstate Insurance Co.	Ronald Pullie
Nationwide Mutual Insurance Co.*	Joel Buck
State Farm Mutual Automobile Ins Co.	Robert Stephan

## Rating Committee

Members	Representative
Atlantic Casualty Insurance Co.*	Mark Caughron
Integon Indemnity Corporation	Brian Rogers
Nationwide Mutual Insurance Co.	David Edwards
NC Farm Bureau Mutual Insurance Co.	Roger N. Batdorff
Travelers Indemnity Co.	Edward A. Bosk
Agent	Tim Ward

## Task Force on Expense Allowances

Members	Representative
Allstate Insurance Co.	Laura Hoffman
Nationwide Mutual Insurance Co.*	Nick Sizemore
Sentry Insurance A Mutual Co.	Peter Sampson
State Farm Mutual Automobile Ins Co.	Alan Bentley
Universal Insurance Co.	Jim McCafferty
Agent	Tim Ward

## Task Force on Recoupment

Members	Representative
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co.	Nick Sizemore
NC Farm Bureau Mutual Insurance Co.	Roger N. Batdorff
Progressive Casualty Insurance Co.	Kevin McGee
State Farm Mutual Automobile Ins Co.*	Alan Bentley
Universal Insurance Co.	Max McCradden
Agent	Robert M. McVay

\*Chair

# Management Report



**Terry Collins**  
Chief Operating Officer

## Introduction

Let me open first with a comment of appreciation and thanks. During this year, we have witnessed the retirement of several key long-time contributors to the North Carolina Reinsurance Facility's historically successful operation. A huge thank you and best wishes go out to our former CFO David Sink, Automobile Manager Tim Lucas, Claims Manager Mike Newton and Counsel Mike Strickland and Robert Paschal. Each will

be sorely missed, but their efforts and leadership left us in a better position and with a strong, eager team to take their place.

On the results front, the Facility experienced its seventh consecutive yearly increase in market share last year. We ended calendar year 2016 with 28% of the statewide auto liability premium, which was the highest level since 1980, but still within the historical range. Early indications are that 2017 will add to this trend. Complicating matters, the Facility loss results have been fueled by the same well publicized external factors that plagued the auto insurance industry countrywide:

- Distracted driving
- More vehicles on the road and their increased mileage
- Higher medical costs
- Increased repair costs along with more sophisticated and expensive vehicles

Both the growth and heightened claims pressure have occurred in an overall low rate increase environment that was inadequate to offset even normal anticipated inflationary pressure, much less the escalation of loss costs experienced the last several years. Thus the Facility operating results remained unfavorable, prompting ongoing actions by the Board of Governors, advisory committees, counsel and staff to

address continued erosion in members' equity. The key actions and details follow in this report.

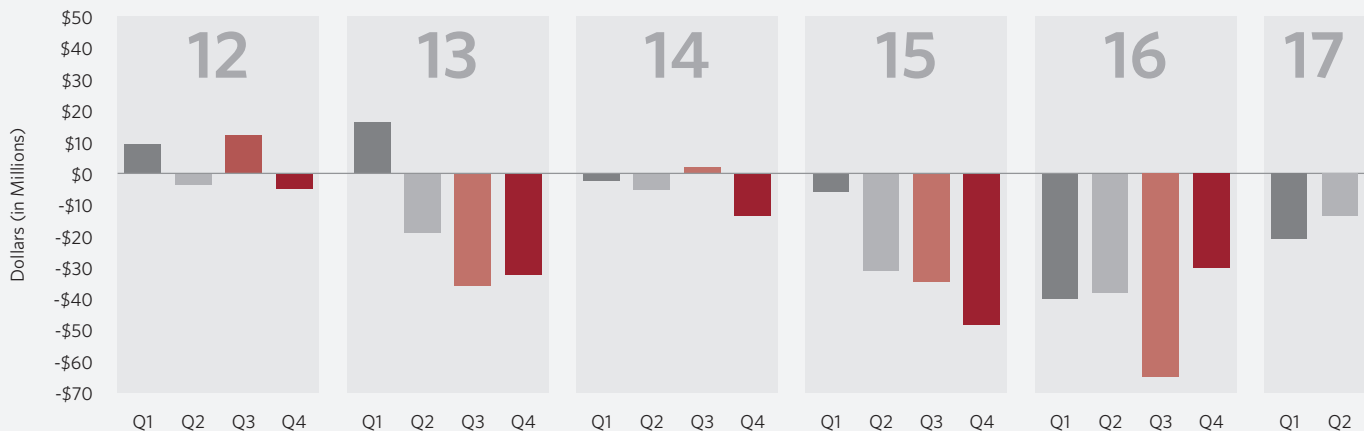
## Operating Results

Effectively managing members' equity is one of our highest priorities. Changes in these balances are monitored very closely by both staff and committees, and appropriate action is taken under the oversight of the Board of Governors and within the guidelines outlined in the governing statutes. During the past three quarters, the combined members' equity balance decreased from -\$261 million to -\$325 million. This drop is obviously disappointing to all. We should not forget that a combination of increases in recoupment surcharges, rate revisions where allowed and rule adjustments did combine to increase revenue and reduce claims dollars, softening an otherwise harsher blow.

Evidence of the above impact was most visible in Private Passenger Auto where the unfavorable operating results appear – again appear – to have begun decelerating as higher recoupment surcharges flow into quarterly results. However, inflows of cessions, up 6.3% in June from prior year, do add pressure. Quarterly financial statements reflect a still shrinking member's equity at -\$229 million, but the magnitude of the quarterly losses is below the level posted in comparable quarters. Unfortunately, the negative results generated by the multiple factors of too little rate and escalated frequencies and severities over the past three years generated much red ink that will not be erased overnight. Continued diligence will be needed.

Contrary to our somewhat positive view on the recent Private Passenger Auto results, Commercial Auto experience has continued to deteriorate and generate more bottom line pressure and thus concern. As of June 2017, this small portion of the Facility exposure base dropped to a deficit of \$96 million. This is in spite of cession volume declining 8.1% this year on top of a -4.4% drop last year. Multiple rate increases, revised rating rules for out-of-state risks and strong legislative support in HB287 passed in 2016 (anti-fraud measures to combat rate evasion) have certainly provided staunch relief but have not been able to turn the tide. Unfortunately, the results dictate that much more work will be required.

Net Results of Operations (After Recoupments)



## Volume

The North Carolina Reinsurance Facility remains the largest residual market mechanism for automobile insurance in the United States. The Facility provides reinsurance for approximately one-quarter of the automobile liability business written in North Carolina. While this figure has remained notably stable since the Facility was created in 1973, as illustrated in the chart to the right, the market share has increased in each of the last seven years.

Overall, total cession notice volume is about 6.1% higher than for the same period last year, while fiscal year 2016 was up 2.4% over fiscal year 2015. As mentioned earlier, this increase in cessions is driven by private passenger.

Of the total number of ceded exposures during this fiscal period, 76% were private passenger “clean risks” and 21% were private passenger “other-than-clean” risks, with the remaining 3% of ceded exposures commercial auto risks. This distribution has remained fairly stable over the last several years.

As of June 2017, policies in force had increased 4.1% over prior year to approximately 1.38 million policies—97% were private passenger non-fleet policies, and 3% were all other policies—generating over 30 million transactions annually.

Finally, written premium for the fiscal year ending September 2017 is projected to exceed \$1 billion, which will be approximately 5% higher than the previous fiscal year.

## Rates, Rules and Forms

### Personal Auto Program Changes

*Effective October 1, 2016*

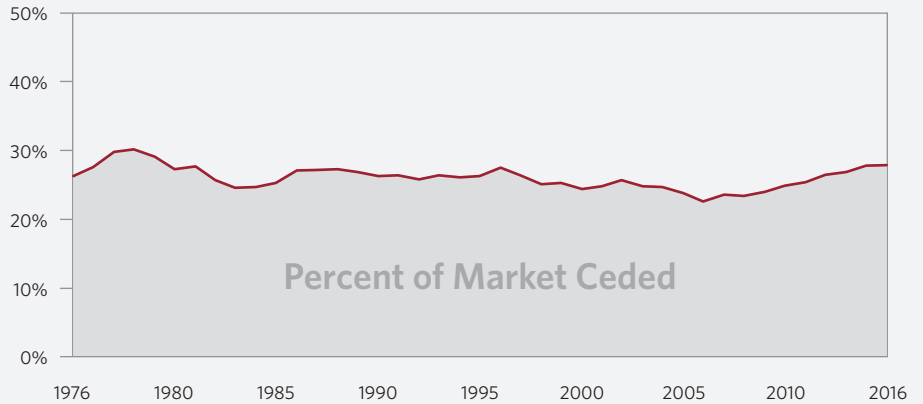
For “other-than-clean” private passenger risks, the Facility filed a +6.2% rate increase for liability coverages over the rates previously in effect.

For all ceded private passenger risks, adjustments were also made to the territory relativities and certain class plan factors.

*Effective October 1, 2017*

The Facility implemented an average +10.1% auto liability rate change on “clean risks” in tandem with voluntary rates settled between the North Carolina Rate Bureau and the Department of Insurance. All liability coverages were impacted by this revision.

Share of NC Auto Liability Market Ceded — By Calendar Year



For “other-than-clean” private passenger risks, the Facility filed a +13.0% rate increase over the rates previously in effect. Bodily Injury, Property Damage and Med Pay rates were each revised.

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

The Facility adopted revisions to the Safe Driver Insurance Plan to comply with the provisions of HB 287, which amended the property damage accident thresholds for private passenger auto. For at-fault accidents involving property damage, the thresholds for point assignments were increased for accidents occurring on or after October 1, 2017.

### Commercial Auto Program Changes

*Effective October 1, 2017*

For commercial auto risks, the Facility filed revised basic limits liability rates effective for trucks, tractors and trailers and private passenger types not eligible for rating under the North Carolina Personal Automobile Manual and revised bodily injury and property damage increased limits factors for such coverages rated under the Facility’s Commercial Automobile Insurance Manual. Reflecting the continued deterioration in commercial loss experience, the various rate level changes in this filing averaged +9.9% over the rates previously in effect.

The Reinsurance Facility introduced several revisions approved by the Commissioner of Insurance to the North Carolina Reinsurance Facility Commercial Automobile Manual. Rule 8 – Additional Premium Changes, was revised to allow companies to use the rates in effect at the

time an additional vehicle is added or the rates in effect at the inception of the policy. In Rule 12 – Private Passenger Types, the definition of private passenger auto was revised to track the definition in the Personal Auto Manual. Both became effective immediately.

Two rule revisions were introduced last summer and became effective on April 1, 2017. Rule 32 – Premium Development – Other Than Zone Rated Autos under the Trucks, Tractors and Trailers Section and Rule 42 – Premium Development – Other Than Zone Rated Autos under the Public Transportation Section were revised to clarify the rating for vehicles that are principally garaged or principally operated in a state other than North Carolina and provided new out-of-state base rates for these risks.

### Recoupment

North Carolina law allows carriers to cede to the Facility any eligible risks. While the Facility establishes actuarially sound rates for “other-than-clean” risks (except that no profit is included), the rates for “clean risks” are statutorily capped at the voluntary rate level, which is 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 private passenger non-fleet policies.

Recoupment surcharges are reviewed at least annually and adjusted as deemed appropriate and necessary. In June 2016, the Board of Governors implemented a clean risk recoupment surcharge of 4.94% (before

inclusion of agent compensation), applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2016, through March 31, 2017.

In December 2016, the Board of Governors authorized the continuance of the clean risk recoupment surcharge of 4.94% (before inclusion of agent compensation), which became applicable to all new and renewal private passenger policies effective on and after April 1, 2017, through September 30, 2017. For the current fiscal year through June 2017, income from clean risk surcharges has generated approximately \$127 million.

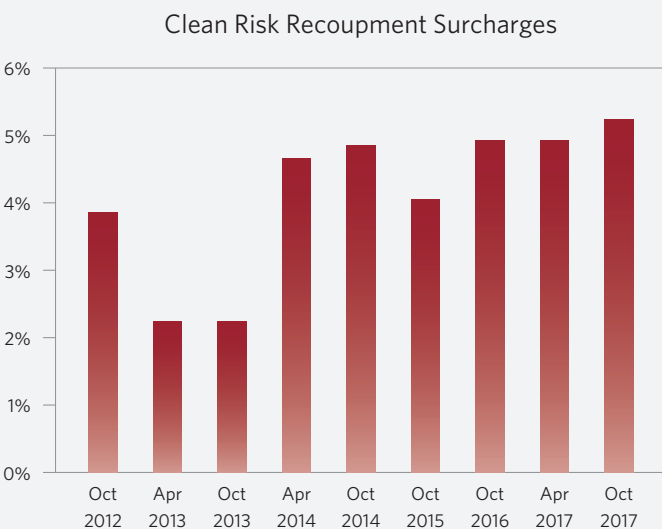
North Carolina law also allows the Facility to recoup operating losses. In June 2016, the Board of Governors authorized a new loss recoupment surcharge of 3.32% (before inclusion of agent compensation), which became applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2016, through March 31, 2017.

In December 2016, the Board of Governors authorized a new loss recoupment surcharge of 5.00% (before inclusion of agent compensation), which became applicable to all new and renewal private passenger policies becoming effective on and after April 1, 2017, through September 30, 2017. For the current fiscal year through June 2017, income from loss surcharges has generated approximately \$102.4 million. The loss recoupment surcharge will be adjusted and continued as needed to recover the private passenger members' equity deficit, which was \$229 million at June 30, 2017.

To simplify the programming requirements for the member companies, the Facility modified its operating system to allow companies to report the clean risk and loss recoupments on a combined basis, saving expense and effort for all private passenger carriers in the state.

## Compliance Activity

Our compliance staff's focus is on compliance with statutes, rules and regulations, as well as eligibility for ceded coverage and reimbursement, as part of our responsibility to ensure that the Facility collects the right premium and pays the right losses. In the various types of audits performed by the compliance staff, member company files are reviewed



for, among other items, proper reporting of premiums and losses, claims handling, proper application of underwriting rules, eligibility, experience modification rating and recoupment. The compliance staff also performs audits on non-ceding companies to ensure that recoupment amounts are correctly determined and collected.

## 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. Two significant bills of interest, including one from 2016, necessitate inclusion in this report.

House Bill 287 – Amend Insurance Laws, was enacted during the 2016 session. Sponsored by the Department of Insurance, it contained significant new anti-fraud provisions becoming effective December 1, 2016, amending the rate evasion and Reinsurance Facility statutes to address out-of-state risks fraudulently obtaining North Carolina insurance. Key points of the bill add new criminal penalties, provide guidelines for acceptable documentation to prove North Carolina residency for the purpose of obtaining insurance and create a right of recovery for the carriers from insureds who misrepresent their eligibility status when obtaining insurance. The Facility manual rules were revised to reflect these statute changes.

House Bill 501 – Enacted in June, HB 501 increases the minimum financial responsibility limits for taxi cabs for liability and property damage coverages. The changes in HB 501 have increased the minimum financial responsibility limits from \$30,000/\$60,000 to \$100,000/\$300,000 for bodily injury and from \$25,000 to \$50,000 for property damage. This change was effective October 1, 2017.

## Conclusion

Much was accomplished last year in spite of the external headwinds. As we move into our new year, we will begin to realize gains from actions made in 2017 such as the PPA Liability Rate increase of 10.1% effective October 1. Yet we will also still face formidable challenges for improvement such as in our Commercial Auto operating results. Regardless, we are confident that our strong collaborative team of engaged member companies and staff will be up to the challenge.

**Terry Collins**

*Chief Operating Officer, Reinsurance Facility*

# Shared Services

## Finance



**Edith Davis**  
Chief Financial Officer

### Investments

Net operating losses continued over the past year, resulting in additional distributions from the Facility's investment account to satisfy its obligations to member companies. Those distributions have contributed to the decrease in the Facility's book value of its portfolio from approximately \$702 million to about \$628 million over

the twelve months ending June 30, 2017. As of that date, the market value of the account was \$640 million, reflecting a net unrealized gain of about \$12 million. The portfolio returned about .49% over the twelve months ending June 30, 2017, despite the low interest rate environment that continues in the fixed income market. The return of .49% outperformed the benchmark by 43 basis points over that past twelve months, and no "other than temporary impairment" of investments was recorded during the report year. The chart below reflects the portfolio's performance compared to the benchmark for the twelve months ending at the respective periods.

### Net Operating Results and Administrative Expenses

As noted, the Facility has continued to experience net operating losses over the report year, and those losses have totaled \$64.5 million for the fiscal year to date as of June 30, 2017. As of that date, the members' equity stood at -\$325 million and consists of -\$229 million private passenger business and -\$96 million other than private passenger. The Facility implemented loss recoupments on private passenger policies effective on or after on October 1, 2016, and April 1, 2017, that were anticipated to generate revenue of about \$141.6 million to offset a portion of the private passenger operating losses. These funds are reported as a credit directly to members' equity, rather than contemplated in the determination of an operating gain or loss, as clean risk recoupment is. Additional revenue is anticipated from a private passenger loss recoupment to become effective on October 1, 2017.

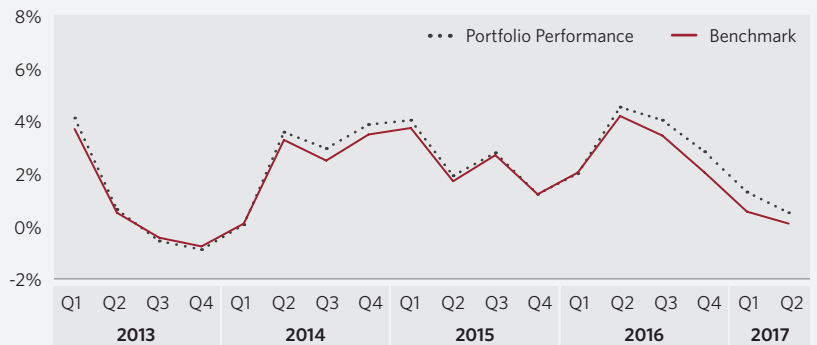
The Facility's administrative expenses totaled \$6.3 million during calendar year 2016, which represented a decrease of 3% from the prior year and approximately 96% of the approved budget for the respective period. The total administrative expenses of the Facility are comprised of the direct costs related to specific activities of the Facility as well as allocated expenses of the departments whose services are shared with the Rate Bureau and Insurance Guaranty Association. The table and chart on this page show a summary of the direct and allocated

expenses for the prior two years and the first half of 2017. Overall, the administrative expenses have remained relatively stable and consistent over the past few years, but significant legal expenses and some unbudgeted costs associated with several retirements occurring in 2017 may result in the Facility slightly exceeding the budget by year's end.

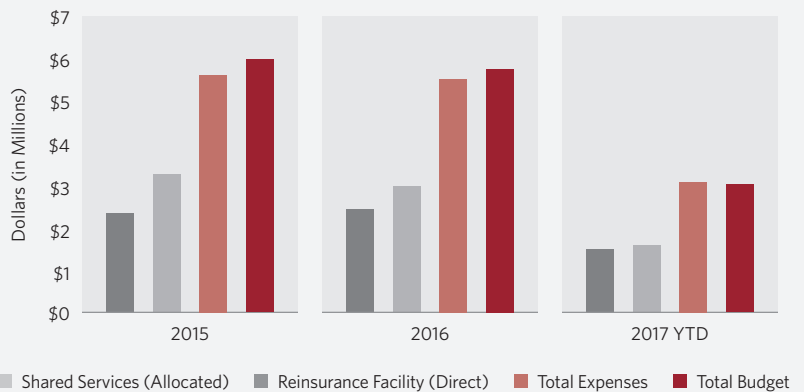
### Audit

The second annual audit by Johnson Lambert of the fiscal year ended September 30, 2016, went equally as well as the first, and they presented their report to the Audit Committee in February 2017. Johnson Lambert issued a clean opinion on the Facility's audited financial statements and conducted the required communications to the Committee, noting there were no misstatements or internal control weaknesses identified during the audit and that the significant accounting policies had been consistently applied during the current year. An excerpt of those audited financial statements is included in this report.

Investment Portfolio Performance  
Annualized Total Returns Vs. Benchmark



Administrative Expenses



Administrative Expenses	2015	2016	Thru June 2017
Reinsurance Facility (Direct)	\$ 2,605,166	\$ 2,737,893	\$ 1,646,962
Shared Services (Allocated)	3,607,415	3,338,757	1,757,271
<b>Total Expenses</b>	<b>\$ 6,212,581</b>	<b>\$ 6,076,650</b>	<b>\$ 3,404,233</b>
<b>Total Budget</b>	<b>\$ 6,560,842</b>	<b>\$ 6,345,720</b>	<b>\$ 3,339,703</b>

# Shared Services

## Information Services



**Shelley Chandler**  
Chief Information Officer

As organizations become more dependent on data and systems to increase efficiency and effectiveness, Information Technology continues to grow in breadth and depth to help organizations streamline operations while continuing to expand the focus on the security of the data and systems that are at the core. NC Reinsurance Facility, like all organizations, continues to increase focus on strengthening the external perimeter to the data while ensuring that all assets are safe inside.

As a repository for large volumes of industry data, we continue to focus on constant improvements and tightening our security stance. This is done by continually modernizing technology and focusing on security through prevention and early detection, including things such as data encryption, protecting sensitive data caches, locking down privileged accounts and ensuring security software is updated.

In addition to preventing potential security breaches, we want to detect potential issues and remediate appropriately. To help with this task, we contract with security experts to conduct quarterly security audits to help identify new potential risks. These regular audits enable us to improve our processes, procedures and software continually to remediate any new risks identified.

In 2016, we implemented a security awareness training program for our internal associates and continued this education program in 2017. We believe that educating our associates regarding safe security practices is our first line of defense in regards to security.

Information Technology is an ever-changing landscape, and we strive to educate our associates continually to keep their technology knowledge updated and fresh. We promote and encourage education with our IT staff through our continuing education program, career-specific certifications and conferences.

Information Technology continues to work to improve our core processing system, EDGE, for the NC Reinsurance Facility and our customers.

## Human Resources



**Vicki Godbold**  
Chief Human Resources Officer

Human Resources is the strategic and comprehensive approach committed to our Organization's most valued assets—our people. Facility Services provides a secure and comfortable work environment along with mail services and receptionist services. In HR, we based our 2016 Performance Evaluations on individual associate job descriptions. In Facility Services, we upgraded our security through two new outdoor cameras.

Our Wellness Program consists of:

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

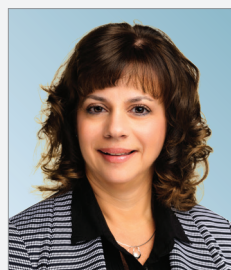
On-site training this year consisted of on-site fitness classes, wellness seminars and Diversity and Inclusion Training.

Community Service involvement by our associates this year included St. Jude Children's Research Hospital, the United Way and the NC Food Bank.

## NCRF Management Staff



**Andy Montano**  
Manager, Automobile



**Donna Kallianos**  
Manager, Claims



**Jannet Barnes**  
Manager, Compliance

## Balance Sheet

As of	June 30, 2017	June 30, 2016
<b>Assets</b>		
Cash (Checking Account)	\$21,890,693	\$6,167,735
Cash Restricted (Including Escrow)	-	-
Investments	627,210,511	702,167,090
Accounts Receivable	29,427,732	10,983,633
Accrued Interest Receivable	3,720,571	4,278,740
Other Assets	92	92
<b>Total Assets</b>	<b>\$682,249,600</b>	<b>\$723,597,290</b>
<b>Liabilities &amp; Members' Equity</b>		
Accounts Payable	42,668,555	\$ 46,848,802
Loss Reserves	642,593,013	576,504,395
Unearned Premium Reserves	321,663,232	296,484,954
Provision for Premium Refunds	-	-
Other Liabilities	915,875	299,422
<b>Total Liabilities</b>	<b>\$1,007,840,676</b>	<b>\$920,137,573</b>
Members' Equity	(325,591,076)	(196,540,283)
<b>Total Liabilities &amp; Members' Equity</b>	<b>\$682,249,600</b>	<b>\$723,597,290</b>

## Income Statement

Fiscal Year through	June 30, 2017	June 30, 2016
<b>Income</b>		
Earned Premiums	\$748,743,374	\$701,458,876
Clean Risk Recoupment	127,291,883	101,542,311
Investment Income	15,872,715	17,681,379
Membership Fee Income	54,100	54,200
Other Income	123,388	86,120
<b>Total Income</b>	<b>\$892,085,460</b>	<b>\$820,822,886</b>
<b>Expenses</b>		
Losses Incurred	\$756,736,346	\$681,054,381
Ceding & Claims Expenses	296,633,310	262,001,931
Premiums Escrowed	-	-
Other Underwriting Deductions	716,239	(299,168)
Salaries & Administration Expenses	1,867,082	1,744,059
Outside Services Expenses	1,810,784	1,628,761
Other Operating Expenses	1,232,060	1,367,085
<b>Total Expenses</b>	<b>\$1,058,995,820</b>	<b>\$947,497,049</b>
<b>Net Income / (Loss) Before Loss Recoupments</b>	<b>\$(166,910,360)</b>	<b>\$(126,674,163)</b>
<b>Loss Recoupments</b>	<b>102,393,572</b>	<b>(664)</b>
<b>Net Income / (Loss) After Loss Recoupments</b>	<b>\$(64,516,788)</b>	<b>\$(126,674,827)</b>

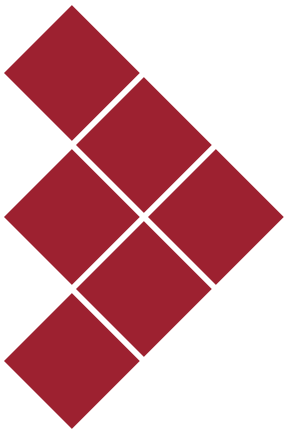
## Special Purpose Balance Sheet

Year Ending	Sept 30, 2016	Sept 30, 2015
<b>Assets</b>		
Cash and Short-Term Investments	\$78,563,154	\$64,372,002
Investments, at Amortized Cost	587,690,678	697,811,303
Accrued Interest Receivable	4,019,550	4,630,252
Settlements Receivable From Member Companies	15,968,345	17,176,167
<b>Total Assets</b>	<b>\$686,241,727</b>	<b>\$783,989,724</b>
<b>Liabilities &amp; Members' Equity</b>		
Loss and Loss Adjustment Expense Reserves		
▪ In Course of Settlement	\$462,950,390	\$424,562,662
▪ Incurred But Not Reported	132,477,009	116,822,367
<b>Total Loss and Loss Adjustment Expense Reserves</b>	<b>595,427,399</b>	<b>541,385,029</b>
Unearned Premium Reserves	306,861,057	290,883,240
Advance Clean Risk Subsidies	3,067,784	2,073,809
Premium Deficiency Reserve	32,606	299,168
Settlements Payable to Member Companies	44,866,311	20,858,188
Other Liabilities	128,642	429,554
<b>Total Liabilities</b>	<b>950,383,799</b>	<b>855,928,988</b>
Members' Equity	(264,142,072)	(71,939,264)
<b>Total Liabilities and Members' Equity</b>	<b>\$686,241,727</b>	<b>\$783,989,724</b>

## Special Purpose Statement of Operations

Year Ending	Sept 30, 2016	Sept 30, 2015
Premiums Earned	\$941,370,465	\$889,880,145
Clean Risk Subsidies	137,391,524	159,320,049
<b>Total Underwriting Income</b>	<b>1,078,761,989</b>	<b>1,049,200,194</b>
Losses Incurred	935,809,231	802,600,646
Ceding Expense Allowances	245,321,886	238,959,101
Claims Expense Allowances	109,359,990	109,295,610
Change in Premium Deficiency Reserve	(266,562)	299,168
<b>Total Underwriting Expenses</b>	<b>1,290,224,545</b>	<b>1,151,154,525</b>
<b>Net Underwriting Loss</b>	<b>(211,462,556)</b>	<b>(101,954,331)</b>
<b>Other Income (Expense)</b>		
Net Investment Income	19,002,944	20,296,014
Net Realized Investment Gains	3,295,048	3,131,336
Late Premium Charges and Penalties	80,224	73,616
Membership Fees	54,300	53,800
General and Administrative Expense	(5,234,300)	(5,272,382)
Other Miscellaneous Income	-	-
<b>Total Other Income — Net</b>	<b>17,198,216</b>	<b>18,282,384</b>
<b>Net Operating Loss</b>	<b>\$(194,264,340)</b>	<b>\$(83,671,947)</b>





# NCRF

North Carolina **Reinsurance Facility**

2910 Sumner Blvd. Raleigh, NC 27616 [www.ncrb.org/ncrf](http://www.ncrb.org/ncrf)

