

NORTH CAROLINA REINSURANCE FACILITY

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RAYMOND F. EVANS, JR. CPCU
General Manager

ROBERT M. GREER
Audit Manager

F. TIMOTHY LUCAS
Automobile Manager

ROBERT M. NEWTON
Claims Manager

DAVID E. SINK, JR.
Accounting Manager

MINUTES OF THE TWENTY-EIGHTH ANNUAL MEETING OF THE NORTH CAROLINA REINSURANCE FACILITY HELD AT MID PINES INN & GOLF CLUB, 1010 MIDLAND ROAD, SOUTHERN PINES, NORTH CAROLINA, OCTOBER 24, 2001

MEMBERS PRESENT

Allstate Insurance Company
 Allstate Indemnity Company
 Northbrook Indemnity Company
Atlantic Casualty Insurance Company
Commercial Casualty Insurance Company of Georgia
Government Employees Insurance Company
 GEICO General Insurance Company
 GEICO Indemnity Company
Great American Insurance Company
 American Spirit Insurance Company
 Eagle American Insurance Company
 Great American Alliance Company
 Great American Assurance Company
 Great American Insurance Company of New York
 Alea North America Insurance Company
 Worldwide Insurance Company
Harleysville Mutual Insurance Company
 Harleysville Preferred Insurance Company
Integon Indemnity Corporation
 Integon Casualty Insurance Company
 Integon General Insurance Corporation
 Integon National Insurance Company
 Integon Preferred Insurance Company
 Integon Specialty Insurance Company
 New South Insurance Company
Liberty Mutual Insurance Company
 First Liberty Insurance Corporation
 Liberty Insurance Corporation
 Liberty Mutual Fire Insurance Company
 LM Insurance Corporation

REPRESENTED BY

Mr. A. Ivey

Mr. R. Yarbrough
Mr. B. Mathis
Mr. J. Ammendola
Mr. T. McNicholas

Ms. R. Hunter

Mr. R. Johnson

Mr. A. Lyon

Ms. C. Watts
Mr. R. Jones

Nationwide Mutual Insurance Company	Mr. D. Gettles
Nationwide Affinity Insurance Company	Mr. M. Groseclose
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
Ohio Casualty Insurance Company	Ms. V. Anthony
American Fire & Casualty Company	
West American Insurance Company	
Progressive Casualty Insurance Company	Mr. G. Rett
National Continental Insurance Company	
Progressive American Insurance Company	
Progressive Northern Insurance Company	
Progressive Northwestern Insurance Company	
Progressive Preferred Insurance Company	
Progressive Southeastern Insurance Company	
United Financial Casualty Company	
Royal Insurance Company of America	Mr. J. Dasti
Alliance Assurance Company of America	
American & Foreign Insurance Company	
Connecticut Indemnity Company	
Design Professionals Insurance Company	
Employee Benefits Insurance Company	
Fire & Casualty Insurance Company of Connecticut	
Globe Indemnity Company	
Grocers Insurance Company	
Peak Property & Casualty Insurance Corporation	
Royal & Sunalliance Personal Insurance Company	
Royal Indemnity Company	
Safeguard Insurance Company	
Sea Insurance Company of America	
Security Insurance Company of Hartford	
Southern Guaranty Insurance Company	Mr. S. Cone
Southern Fire & Casualty Company	
Southern Pilot Insurance Company	
State Automobile Mutual Insurance Company	Mr. W. Florence
State Automobile National Insurance Company	
State Automobile Property & Casualty Insurance Company	
State Farm Mutual Automobile Insurance Company	Mr. T. Pemberton
	Mr. G. Hahn
	Mr. C. Kiehl
	Mr. B. Messier
	Mr. M. Taylor

Travelers Indemnity Company
Automobile Insurance Company of Hartford
Charter Oak Fire Insurance Company
Farmington Casualty Company
Phoenix Insurance Company
Standard Fire Insurance Company
Travco Insurance Company
Travelers Casualty & Surety Company of America
Travelers Casualty & Surety Company of Illinois
Travelers Casualty Company of Connecticut
Travelers Casualty & Surety Company
Travelers Commercial Insurance Company
Travelers Home & Marine Insurance Company
Travelers Indemnity Company of America
Travelers Indemnity Company of Connecticut
Travelers Indemnity Company of Illinois
Travelers Indemnity Company of Missouri
Travelers Personal Security Insurance Company
Travelers Property Casualty Insurance Company
Universal Insurance Company

Mr. B. Seagle

Mr. G. Spray

226 other member companies were represented by proxy.

AGENT MEMBERS PRESENT

Jeff Butler
John Russell
Steve Smith
Hutson Wester
John Wooten

OTHERS PRESENT

North Carolina Department of Insurance

Young, Moore & Henderson

Public Member - Board of Governors
Staff

REPRESENTED BY

Mr. C. Swindell
Mr. T. Hoivik
Mr. M. Spivey
Mr. M. Strickland
Mr. B. Trott
Mr. S. Whitley
Mr. R. Evans
Mr. R. Greer
Mr. T. Lucas
Mr. M. Newton
Mr. D. Sink

The meeting convened as scheduled, Mr. Gettles of Nationwide Mutual Insurance Company, Chairman of the Board of Governors, presiding.

1. Annual Report

Copies of the Twenty-Eighth Annual Report covering the fiscal year ended September 30, 2001 were distributed. Messrs. Evans and 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-Eighth Annual Report be adopted was seconded and carried unanimously.

2. Chairman's Comments

Mr. Gettles 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.

3. Adjournment

There being no further business the meeting was adjourned.

Sincerely,

Raymond F. Evans, Jr., CPCU

General Manager

RFE:lm
Enclosure
RF-01-13
11/7/01

TWENTY-EIGHTH ANNUAL REPORT

This Report covers the activities of the North Carolina Reinsurance Facility during the fiscal year ended September 30, 2001.

MEMBERSHIP

As of September 30, 2001, there were 472 member companies. New members during the year were:

<i>American Guaranty Insurance Company</i>	<i>Lincoln General Insurance Company</i>
<i>Associates Insurance Company</i>	<i>Mutual Insurance Corporation of America</i>
<i>Atlantic Specialty Insurance Company</i>	<i>NLC Mutual Insurance Company</i>
<i>Columbia National Insurance Company</i>	<i>Ohio Farmers Insurance Company</i>
<i>General Security Insurance Company</i>	<i>Prudential Commercial Insurance Company</i>
<i>Economy Fire & Casualty Company</i>	<i>Prudential General Insurance Company</i>
<i>Economy Preferred Insurance Company</i>	<i>QBE Insurance Company</i>
<i>Economy Premier Assurance Company</i>	<i>Seven Hills Insurance Company</i>
<i>Executive Risk Indemnity, Inc.</i>	<i>Sentinel Insurance Company, LTD</i>
<i>Folksamerica Reinsurance Company</i>	<i>Travelers Indemnity Company of Missouri</i>
<i>FCCI Insurance Company</i>	<i>United National Specialty Insurance Company</i>
<i>Insurance Corporation of Hannover</i>	

The following companies withdrew from membership or were merged with another member company during the year:

<i>Overseas Partners US Reinsurance Company</i>	<i>Reliance National Indemnity Company</i>
<i>Reliance Surety Company</i>	<i>United Pacific Insurance Company</i>

Agent members of the Board appointed by the Commissioner of Insurance are Mr. Jeffrey W. Butler of Wilmington, representing Auto Insurance Agents of North Carolina, Inc.; Mr. John A. Russell of Winston-Salem, representing Independent Insurance Agents of North Carolina, 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.

Public members of the Board appointed by the Governor are Mr. Frederick M. Tate of Elizabethtown and Mr. Steve J. Whitley of North Wilkesboro.

The Commissioner of Insurance continued as ex-officio member of the Board as provided by law. The Board of Governors elected Nationwide Mutual Insurance Company as Chairman. Four meetings of the Board were held during the year, including one telephone conference.

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.

These standing committees and the company chairing them are:

Committee	Chair Company
Market	Travelers Indemnity Company
Claims	State Farm Mutual Automobile Insurance Company
Audit	Liberty Mutual Insurance Company
Accounting & Statistical	State Farm Mutual Automobile Insurance Company
Rating	Liberty Mutual Insurance Company
Investment	Nationwide Mutual Insurance Company
Legal Committee	Liberty Mutual Insurance Company

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.

AIPSO is a management organization and service provider for various insurance industry group responsible for administering the residual market. Being a nonprofit organization, the revenues AIPSO receives from automobile insurers generally cover only its operating costs.

These costs are shared among the insurers on a market share basis for each of 49 states (as well as District of Columbia) in which AIPSO provides services. Many AIPSO services are provided directly to or on behalf of Governing Committees representing residual market mechanisms in each state.

The residual market (also known as the shared market) consists of those consumers who are unable to purchase automobile insurance through the voluntary market due to a variety of factors, such as their driving history or status as first-time drivers. Due to these factors, insurers expect that these drivers; future loss experience will be more costly than the predictions of losses and expenses underlying their voluntary market rates.

In most of the United States, this business is shared among insurance companies in two ways: (1) applications in the residual market are divided equitably through direct company assignment of the applicants, or (2) results of various pooling mechanisms are allocated equitably among participating member companies.

In 1999, more than \$2.2 billion of premium was written in the automobile insurance residual market, representing 1.7 percent of the total direct written premium for the automobile insurance market in the United States for that year.

The number of private passenger autos insured through residual market mechanisms is not distributed evenly among all states. Depending upon such factors as government regulations and industry competition, the size of the residual market can vary dramatically from one state to another.

For example, the residual market mechanisms in such states as Utah, Ohio and South Dakota were utilized to insure fewer than 100 private passenger autos during 1998. In contrast, more than 100,000 private passenger autos are insured through the residual market in each of the six largest states during the same year. These nine states comprise more than 90% of the countrywide private passenger residual market business.

There are, among residual market mechanisms, only two states, North Carolina and New Hampshire with reinsurance facilities.

As a measure of size, of all state residual market mechanisms, North Carolina is the largest in terms of private passenger auto premiums.

State	1999 PPA Premiums
North Carolina	\$538,202,000
Massachusetts	475,464,000
New York	295,787,000
New Jersey	189,580,000

CESSION VOLUME

The chart below shows the number of cession notices processed by the Facility monthly during the fiscal years ended September 30, 2001, and 2000. The second chart 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 higher in calendar year 2000 than 1999, excluding the effect of premium refunds which is shown on the third chart.

NORTH CAROLINA REINSURANCE FACILITY

Cession Notices* Processed Monthly

<u>Month</u>	<u>Year Ended 9/30/01</u>	<u>Year Ended 9/30/00</u>
October	194,623	213,085
November	189,667	185,772
December	180,158	176,430
January	191,839	216,874
February	221,590	178,013
March	200,949	199,354
April	212,383	210,975
May	189,942	167,434
June	191,941	169,801
July	213,398	227,962
August	208,066	192,925
September	<u>221,581</u>	<u>197,231</u>
Total	<u>2,416,137</u>	<u>2,335,856</u>

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

NORTH CAROLINA REINSURANCE FACILITY

Cession Notices Processed by Class and Type

<u>By Class</u>	<u>Year Ended</u> <u>9/30/01</u>	<u>Year Ended</u> <u>9/30/00</u>
Private Passenger Non-Fleet	2,469,358	2,355,540
All Other Risks	78,852	90,922
Combination of Above	<u>2,029</u>	<u>1,171</u>
Total Notices Processed	<u>2,550,239</u>	<u>2,447,633</u>

<u>By Type</u>		
Binder or New Policy	759,941	724,228
Subsequent Renewals	1,622,446	1,575,703
Mid-Term Cessions	33,750	35,925
Policy or Renewal Not Taken	<u>134,102</u>	<u>111,777</u>
Total Notices Processed	<u>2,550,239</u>	<u>2,447,633</u>

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

(Thousands of Dollars)

(1)	(2)	(3)	(4)
<u>Calendar Year</u>	<u>Total N.C. Direct Written Premium</u>	<u>NCRF Ceded Written Premium</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
1999	2,313,278	584,055	.252
2000	2,249,850	570,561*	.254

*Excludes premium refunds totaling \$54.3 million.

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, 2001 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, the Board approved one appeal by a member company seeking acceptance of cession by the Facility of numerous policies for which timely notices of cession were not submitted; however, the Company later withdrew the appeal. In two cases, the Board approved appeals by new member companies requesting establishment of a ceding expense allowance. As of September 30, 2001 there were three appeals pending before the Board, two by new member companies for establishment of ceding expense allowances, and one by a member company seeking reimbursement of losses paid under a policy which the company contends was ceded to the Facility.

FILING ACTIVITIES

The following automobile insurance filings submitted by the Reinsurance Facility were approved or deemed approved by the Commissioner of Insurance during the year ended September 30, 2001:

Effective Date

Subject

May 23, 2001

Revised North Carolina Uninsured Motorists Coverage Endorsement CA 21 16

Rate Revisions

(1) 2001 Private Passenger Automobile Insurance Rate Filings

On May 1, 2001, the Rate Bureau filed with the Commissioner of Insurance revised rates for a private passenger automobiles and motorcycles. The filing proposed an overall rate level increase of 10.7% for private passenger automobiles and a decrease of 2.4% for motorcycles. The Rate Bureau's filing included liability insurance rates applicable to "clean risks" ceded to the Reinsurance Facility, as defined in G.S. 58-37-35(1), and uninsured/underinsured motorists coverage rates for use in connection with the non-fleet private passenger automobiles ceded to the Reinsurance Facility. It was proposed to become effective October 1, 2001.

On June 13, 2001, the Commissioner of Insurance issued a Notice of Public Hearing in connection with this filing and scheduled a public hearing to convene on September 9, 2001.

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

(2) August 1, 2001 Filing

On August 1, 2001, the Reinsurance Facility filed with the Commissioner of Insurance revised (1) basic limit rates for liability insurance for commercial cars, garages 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; and (3) uninsured and underinsured motorists coverage rates. The revised rates included overall rate changes of +0.1% for commercial cars, and +4.5% for garages, and +6.1% for private passenger types. These changes will be implemented effective November 1, 2001.

(3) July 27, 2001 Filing

On July 27, 2001, the Reinsurance Facility filed with the Commissioner of Insurance base rate changes for bodily injury and property damage liability and medical payments insurance for non-fleet 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). These rate level changes resulted in an overall average rate level increase of 2.9%. These changes became effective with respect to policies effective on or after October 1, 2001.

FACILITY MANUAL AMENDMENTS

Section 2 of the North Carolina Reinsurance Facility Standard Practice Manual was amended as a result of the enactment of House Bill 357 and House Bill 164 by the North Carolina General Assembly providing for cession of higher coverage limits if needed to obtain personal umbrella or personal excess liability coverage. With the help of Counsel, the Insurance Department and a number of member companies we spent considerable time on this bill. While it might not have been finalized as all would have wished, one thing is certain, it would have been a more difficult situation if we had not all worked together.

Sections 3 and 4 of the North Carolina Reinsurance Facility Standard Practice Manual were amended (1) to implement accounting changes related to the Codification of Statutory Accounting Principles developed by the NAIC; (2) to provide a revised Statement of Eligibility for Higher Coverage Limits Form NCRF-30 to conform to changes in the Motor Vehicle Financial Responsibility Act of 1957 resulting from passage of various legislation; (3) to provide for a test data service for use by member companies; (4) to provide for quarterly rather than semi-annual validation of the history masterfile; (5) to provide for cession of higher coverage limits if needed to obtain umbrella or excess liability coverage; (6) to implement a revised rule relating to acceptance of late submitted cession notices; and (7) to reflect the implementation of a new "clean risks" allocation surcharge effective July 1, 2001.

RECOUPMENT AND ALLOCATION

During a meeting held on April 4, 2001, the Board of Governors voted (1) with respect to nonfleet private passenger vehicles to implement a "clean risks" recoupment surcharge of 7.22% (8.02% including agent compensation) and no loss recoupment surcharge, and (2) with respect to other than nonfleet private passenger risks, that no loss recoupment surcharge be applied to policies written to become effective during the twelve months beginning July 1, 2001.

A summary of all recoupments and allocations since inception of the program through July, 2001, is detailed on the following page.

NCRF RECOUPMENTS AND ALLOCATIONS

Type	Loss Period	Applicable to Policies Effective	Which Policies?	% Sur-charge	Amount of Loss (Millions)	Recovered Thru 07/31/01 (Thousands)	
φ	Prior Loss-Direct	10/1/77- 9/30/78	3/1/80- 2/28/81	All Facility #	18.6%	\$31.4	\$25,494
φ	Prior Loss-Direct	10/1/78- 6/30/79	3/1/81- 9/30/81	All Facility #	16.4%	15.8	11,661
φ	Prior Loss-Assmt.	10/1/78- 6/30/79	10/1/81- 2/28/82	All Pointed SDIP	13.3% *	14.3	8,314
φ	Clean Risk Recoupment	---	3/1/80- 2/28/81	All Subj. to SDIP	1.1%	--	4,549
φ	Clean Risk Recoupment	---	3/1/81- 9/30/81	All Subj. to SDIP	1.4%	--	3,147
φ	Clean Risk Recoupment	---	10/1/81- 3/31/82	All Pointed SDIP	1.8% *	--	1,511
φ	Clean Risk Recoupment	---	4/1/82- 3/31/83	All Pointed SDIP	4.0% *	--	6,558
φ	Clean Risk Recoupment	---	4/1/83- 3/31/84	All Pointed SDIP	4.2% *	--	6,975
φ	Clean Risk Recoupment	---	4/1/84- 3/31/85	All Pointed SDIP	4.3% *	--	7,151
φ	Clean Risk Recoupment	---	4/1/85- 3/31/86	All Pointed SDIP	5.7% *	--	10,643
φ	Clean Risk Recoupment	---	4/1/86- 3/31/87	All Pointed SDIP	8.1% *	--	16,495
φ	Clean Risk Recoupment	---	4/1/87- 3/31/88	All Pointed SDIP	8.8% *	--	22,028
φ	Clean Risk Recoupment	---	4/1/88- 6/30/88	All Pointed SDIP	10.8% *	--	7,697
φ	Clean Risk Allocation	---	7/1/88- 6/30/89	All PPNF	0.6% *	--	6,505
φ	Clean Risk Recoupment	---	7/1/88- 6/30/89	All Pointed SDIP	8.6% *	--	27,573
φ	Clean Risk Allocation	---	7/1/89- 6/30/90	All PPNF	2.8% *	--	32,242
φ	Clean Risk Recoupment	---	7/1/89- 6/30/90	As Per SDIP	14.6% *	--	46,012
φ	Clean Risk Allocation	---	7/1/90- 6/30/91	All PPNF	3.65% *	--	46,518
φ	Clean Risk Recoupment	---	7/1/90- 6/30/91	As Per SDIP	12.60% *	--	43,509
φ	Clean Risk Allocation	---	7/1/91- 6/30/92	All PPNF	3.85% *	--	53,835
φ	Clean Risk Recoupment	---	7/1/91- 6/30/92	As Per SDIP	8.60% *	--	32,076
φ	Clean Risk Allocation	---	7/1/92- 6/30/93	All PPNF	6.79% *	--	103,103
φ	Clean Risk Recoupment	---	7/1/92- 6/30/93	As Per SDIP	10.23% *	--	38,778
φ	Clean Risk Allocation	---	7/1/93- 6/30/94	All PPNF	5.68% *	--	88,755
φ	Clean Risk Recoupment	---	7/1/93- 6/30/94	As Per SDIP	5.00% *	--	20,302
φ	Clean Risk Allocation	---	7/1/95- 6/30/96	All PPNF	2.98% *	--	57,818
φ	Clean Risk Allocation	---	7/1/96- 6/30/97	All PPNF	3.71% *	--	73,055
φ	Clean Risk Allocation	---	7/1/97- 6/30/98	All PPNF	4.11% *	--	83,142
φ	Clean Risk Recoupment	---	7/1/98- 6/30/99	All PPNF	3.63% *	--	74,728
-	Clean Risk Recoupment	---	7/1/99- 6/30/00	All PPNF	1.07% *	--	23,070
-	Clean Risk Recoupment	---	7/1/00- 6/30/01	All PPNF	5.15% *	--	108,360
-	Clean Risk Recoupment	---	7/1/01- 6/30/02	All PPNF	7.22% *	--	14,276
φ	Qtrly. Assessment	7/1/79- 9/30/79	4/1/80- 6/30/80	All	5.3%	6.6	6,071
φ	Qtrly. Assessment	10/1/79-12/31/79	7/1/80- 9/30/80	All	5.3%	6.8	6,453
φ	Qtrly. Assessment	1/1/80- 3/31/80	10/1/80-12/31/80	All	4.9%	7.2	5,540
φ	Qtrly. Assessment	4/1/80- 6/30/80	1/1/81- 3/31/81	All	8.3%	13.4	10,887
φ	Qtrly. Assessment	7/1/80- 9/30/80	4/1/81- 6/30/81	All	5.7%	9.4	6,507
φ	Qtrly. Assessment	10/1/80-12/31/80	7/1/81- 9/30/81	All	0.4%	0.6	643
φ	Qtrly. Assessment	1/1/81- 3/31/81	10/1/81-12/31/81	All Pointed SDIP	9.7% *	6.1	3,682
φ	Qtrly. Assessment	4/1/81- 6/30/81	1/1/82- 3/31/82	All Pointed SDIP	9.7% *	6.6	4,141
φ	Qtrly. Assessment**	7/1/81- 9/30/81	4/1/82- 3/31/83	All Pointed SDIP	5.5% *	15.7	9,337
φ	Loss Assessment	10/1/81- 9/30/82	4/1/83- 3/31/84	All Pointed SDIP	12.6% *	32.8	21,399
φ	Loss Assessment**	10/1/82- 9/30/83	4/1/84- 3/31/85	All Pointed SDIP	20.2% *	47.3	32,954
φ	Loss Assessment**	10/1/83- 9/30/84	4/1/85- 3/31/86	All Pointed SDIP	18.6% *	45.2	35,956
φ	Loss Assessment**	10/1/77- 9/30/84	4/1/85- 3/31/86	All Except PPNF	2.8% *	4.7	5,542
φ	Loss Assessment**	10/1/84- 9/30/85	4/1/86- 3/31/87	All Pointed SDIP	26.9% *	69.7	56,131
φ	Loss Assessment	10/1/84- 9/30/85	4/1/86- 3/31/87	All Except PPNF	5.6% *	8.6	12,984
φ	Loss Assessment**	10/1/85- 9/30/86	4/1/87- 3/31/88	All Pointed SDIP	31.4% *	80.0	80,772
φ	Loss Assessment**	10/1/85- 9/30/86	4/1/87- 3/31/88	All Except PPNF	1.8% *	4.6	4,872
φ	Loss Assessment**	10/1/86- 9/30/87	4/1/88- 6/30/88	All Pointed SDIP	35.6% *	23.4	25,100
φ	Loss Assessment**	10/1/86- 9/30/87	4/1/88- 6/30/88	All Except PPNF	1.3% *	1.2	732
φ	Loss Allocation**	10/1/86-12/31/87	7/1/88- 6/30/89	All PPNF	1.9% *	18.3	19,722
φ	Loss Assessment**	10/1/86-12/31/87	7/1/88- 6/30/89	All Pointed SDIP	25.5% *	73.3	81,415
φ	Loss Assessment**	10/1/86-12/31/87	7/1/88- 6/30/89	All Except PPNF	1.5% *	6.2	4,766
φ	Loss Allocation**	1/1/88-12/31/88	7/1/89- 6/30/90	All PPNF	1.8% *	20.3	20,722
φ	Loss Assessment**	1/1/88-12/31/88	7/1/89- 6/30/90	As Per SDIP	9.4% *	30.5	29,013
φ	Loss Allocation**	1/1/89-12/31/89	7/1/90- 6/30/91	All PPNF	0.19% *	2.5	2,358
φ	Loss Assessment**	1/1/89-12/31/89	7/1/90- 6/30/91	As Per SDIP	0.67% *	2.5	2,292

Except certain policies produced by designated agents.

* Excluding agent compensation or commission.

** Includes shortfalls from prior recoupments.

φ These surcharges closed in prior years.

- This surcharge closed February 28, 2001.

FINANCIAL REPORTS

Financial reports continued to be prepared quarterly and distributed to member companies by circular letter. The most recent report is included on the next two pages.

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 Bank. A separate report is provided by the Investment Committee

DESIGNATED AGENT PROGRAM

There were 38 designated agents and two designated carriers at the beginning of the fiscal year. No agent applications for designated carrier assignment were received from the Department of Insurance during the year. Ten agents were eliminated from the program during the year through termination of appointment by agent or designated carrier. There were 28 designated agents assigned to two designated carriers as of September 30, 2001. 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 24, 2001, and the Task Force on NCRF Expense Allowances met on July 18, 2001.

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, 2001, 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, 2001.

CLAIMS ACTIVITY

During the fiscal year ended September 30, 2001, the Claims Staff, pursuant to general directions from the Claims Committee, reviewed 535 claim files involving 1,529 claim features ceded to the Facility from 51 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, 2001 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 1999 and 2000 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 recoupment surcharge totals reported by member companies and verifying that recoupment 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) Refunds of premium and interest reported by member companies in connection with the settlement of rate cases were reviewed to insure that amounts were properly calculated and accurately reported.
- (12) 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.

OPERATIONS

Staff with assistance from AIPSO continued efforts to modernize and enhance all areas of Facility cession notice processing, data handling, error correction and accounting reporting in order to provide improved timeliness and quality of services to member companies and other parties involved with the Facility. Enhancements included the implementation of imaging capability to provide more timely and efficient access to reports and data, local data warehousing to provide more timely retrieval of data for error correction and analysis, significant upgrades to cession processing and inquiry systems, improved telecommunication capability and a test data service for use by member companies to verify accuracy of data prior to live submission.

LEGISLATION

The North Carolina General Assembly met in 2001 and enacted legislation that affected automobile insurance coverages subject to the Rate Bureau's jurisdiction as follows:

HB 357 - Amends the Reinsurance Facility statutes to allow cession of coverage limits up to \$250/\$500/\$100 and medical payments up to \$5,000 when the additional ceding privileges above \$100/\$300/\$50 are necessary for the purpose of obtaining or continuing coverage under a personal excess liability or personal "umbrella" insurance policy. This bill was to become effective October 1, 2001 however, with the enactment of HB 164, the effective date of the legislation was amended to January 1, 2002.

OPERATING EXPENSES

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

	Year 2001	Year 2000
Salaries & Administration	\$ 626.516	\$ 596.123
Pavroll Taxes	52.722	48.777
Rent and Alterations	62.842	60.641
Software & Svstems	12.825	6.101
Postage	12.652	13.036
Printing & Supplies	11.395	11.720
Furniture & Equipment	47.445	18.515
Telephone	14.992	11.601
Employee Benefits	132.345	156.747
Legal Expenses	59.440	51.256
Audit	106.836	104.738
Data Processing Services	346.577	328.785
Other Outside Services	507.168	526.410
Other Expenses	11.134	14.370
Total	\$2,004.889	\$1,948.820

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,

Raymond F. Evans, Jr., CPCU

General Manager

RFE:lm

Enclosures