



**NORTH CAROLINA REINSURANCE FACILITY**

5401 Six Forks Road • Raleigh NC • 27609

(919) 783-9790 • www.ncrb.org

MINUTES OF THE TWENTY-NINTH ANNUAL MEETING OF THE NORTH CAROLINA  
REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT & CONFERENCE  
CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA,  
OCTOBER 23, 2002

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MEMBERS PRESENT

REPRESENTED BY

Allstate Insurance Company	Mr. A. Ivey
Allstate Indemnity Company	
Northbrook Indemnity Company	
Alpha Property & Casualty Insurance Company	Mr. J. Tanaka
Atlantic Casualty Insurance Company	Mr. R. Yarbrough
Auto Owners Insurance Company	Mr. T. Marshall
Owners Insurance Company	
Government Employees Insurance Company	Mr. T. McNicholas
GEICO General Insurance Company	Mr. J. Thomas
GEICO Indemnity Company	
Grain Dealers Mutual Insurance Company	Ms. P. Everett
Great American Insurance Company	Ms. R. Hunter
Great American Alliance Company	
Great American Assurance Company	
Great American Insurance Company of NY	
Great American Security Insurance Company	
Great American Spirit Insurance Company	
Worldwide Insurance Company	
Integon Indemnity Corporation	Mr. A. Lyon
GMAC Direct Insurance Company	
GMAC Insurance Company Online, Inc.	
Integon Casualty Insurance Company	
Integon General Insurance Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Integon Specialty Insurance Company	
New South Insurance Company	
Liberty Mutual Insurance Company	Ms. C. Watts
First Liberty Insurance Corporation	
Liberty Insurance Corporation	
Liberty Mutual Fire Insurance Company	
LM Insurance Corporation	
Nationwide Mutual Insurance Company	Mr. D. Gettles
Nationwide Affinity Insurance Company	Mr. M. Groseclose
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	

MEMBERS PRESENT (CONT'D.)

REPRESENTED BY

Pennsylvania National Mutual Casualty Insurance Company	Ms. Pat Lovell
Penn National Security Insurance Company	
Royal Insurance Company of America	Mr. G. Sanginario
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 Company	
Royal & Sun Alliance Personal Insurance Company	
Royal Indemnity Company	
Safeguard Insurance Company	
Sea Insurance Company of America	
Security Insurance Company of Hartford	
Southern General Insurance Company	Ms. E. Leming
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
	Ms. C. Lowe
	Mr. B. Messier
	Mr. M. Taylor
	Mr. B. Seagle
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 Casualty Company	
Travelers Commercial Insurance Company	
Travelers Home & Marine Insurance Company	
Travelers Indemnity Company of Connecticut	
Travelers Indemnity Company of America	
Travelers Indemnity Company of Illinois	
Travelers Personal Security Insurance Company	
Travelers Property Casualty Insurance Company	
Universal Insurance Company	Mr. G. Spray

197 other member companies were represented by proxy.

AGENT MEMBERS PRESENT

Mr. J. Butler  
Mr. S. Smith  
Mr. D. Walker  
Mr. H. Wester  
Mr. J. Wooten, III

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  
Ms. J. Barnes  
Mr. R. Evans  
Ms. E. Davis  
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.

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

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

1. The Annual Report

Copies of the Twenty-Ninth Annual Report covering the fiscal year ended September 30, 2002 were distributed. Mr. Evans and other members of Staff 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-Ninth Annual Report be adopted was seconded and passed unanimously.

2. Board of Governors Selection

Mr. Evans 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 three years.

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. Evans 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, Steven D. Smith of Raleigh, J. David Walker of Lumberton, W. Hutson Wester, II of Henderson and John E. Wooten, III of Wake Forest, and as domestic member insurers Integon Indemnity Corporation and Universal Insurance Company.

3. Appreciation to John E. Wooten, Jr.

It was noted that Mr. John E. Wooten, Jr., who had served as an agent member of the Board of Governors since the inception of the Reinsurance Facility in 1973, was retiring upon completion of his most recent term. On behalf of the Reinsurance Facility, Mr. Evans expressed appreciation to Mr. Wooten for his long and dedicated service as a member of the Board, and presented him with a plaque to recognize and honor him for his contributions. Mr. John E. Wooten, III accepted the plaque on behalf of his father.

4. Chairman's Comments

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

5. Adjournment

There being no further business the meeting was adjourned.

Respectfully submitted,

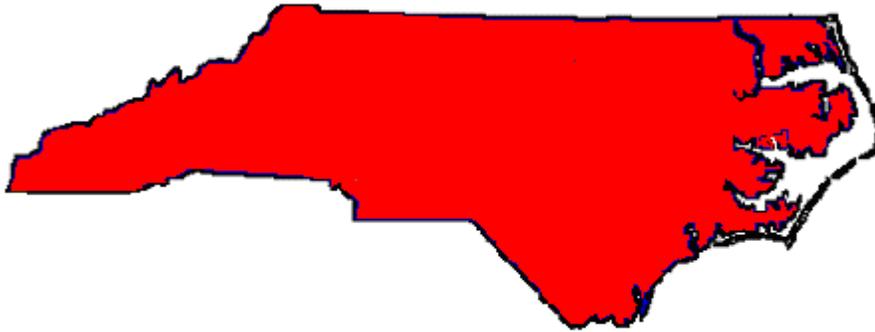
Robert M. Greer

Director of Operations

RMG:lm  
Enclosure  
RF-02-11  
11/5/02

**NORTH CAROLINA  
REINSURANCE FACILITY**

5401 SIX FORKS ROAD RALEIGH, NC 27609



**TWENTY NINTH ANNUAL REPORT**  
**OCTOBER 1, 2001 - SEPTEMBER 30, 2002**



# CHAIRMAN'S CORNER

This "Chairman's Report" concludes my two years as chairperson of the North Carolina Reinsurance Facility. As I look back at the many events, both in North Carolina and the world that have occurred in this period, one thing strikes me. The insurance industry, in the broadest definition of that term, has been able to help provide stability and consistency, a safety net if you will, reducing the chaos and uncertainty around us.

Closer to home, it has been a real pleasure for me to work with the members, staff, counsel and others associated with the Facility. The North Carolina Reinsurance Facility is a unique entity. That it works is a tribute to the professionalism and dedication of those who work with it.

Sincerely,

*Dave Gettles*

Chairman

## **Chairman's Message**

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## FACILITY HISTORY

The North Carolina Reinsurance Facility became operational on October 9, 1973 as the result of legislation that was enacted that year. The Facility replaced an automobile assigned risk plan, which had been in operation since 1947.

In 1958, the first year of compulsory automobile liability insurance in North Carolina, 9% of the non-fleet private passenger automobiles were insured through the Assigned Risk Plan, up from only 3% the previous year. The Plan's market share grew steadily to the point that 29% of the non-fleet private passenger automobiles were insured through the Plan during the year ended June 30, 1973. As of December 31, 2001 the Facility's market share is approximately 25%.

The Reinsurance Facility is a mechanism for pooling of auto liability insurance risks that cannot obtain coverage by ordinary methods. The member companies share premiums, losses, and expenses in proportion to their respective North Carolina automobile liability insurance writings. Under the North Carolina law, licensed and writing carriers and agents must accept and insure any eligible applicant for coverages and limits that may be ceded to the Facility. The Facility accepts cession of bodily injury and property damage liability, medical payments, uninsured and combined uninsured/underinsured motorists coverages. Automobile physical damage coverages are not eligible for cession. Any eligible risk, which a company elects not to retain for its own account, may be ceded to the Facility. There is currently no cession limitation on the number of risks an insurance company may cede to the Facility.

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

<b>State</b>	<b>2000 PPNF Liability Premiums*</b>
North Carolina	\$467,743,000
Massachusetts	305,993,000
New York	344,133,000
New Jersey	142,064,000

\* Source: AIPSO FACTS 2001/2002

## GOVERNANCE

Responsibility for management is vested in a fifteen-member Board of Governors. There are twelve voting members; seven member insurance companies; five agents appointed by the Insurance Commissioner; two nonvoting public members appointed by the Governor; and the Insurance Commissioner who is a member of the Board ex-officio without vote. Four meetings of the Board were held during the year, including one telephone conference.

### BOARD OF GOVERNORS

During the year covered by this Report the following seven member companies served as members of the Board of Governors.

<b>Member</b>	<b>Representative</b>
<b>Allstate Insurance Company</b>	<b>Art Ivey</b>
<b>Great American Insurance Company</b>	<b>Roni Hunter</b>
<b>Integon Indemnity Corporation</b>	<b>Art Lyon</b>
<b>Liberty Mutual Insurance Company</b>	<b>Robert Jones</b>
<b>Nationwide Mutual Insurance Company *</b>	<b>Dave Gettles</b>
<b>Royal Insurance Company of America</b>	<b>Gary Sanginario</b>
<b>Universal Insurance Company</b>	<b>Greg Spray</b>

The following five agents served as members of the Board of Governors during the year covered by this Report.

<b>Auto Insurance Agents of North Carolina, Inc.</b>	<b>Jeffrey W. Butler Able Auto Insurance Agency</b>
<b>Independent Insurance Agents of North Carolina, Inc.</b>	<b>John A. Russell Argus Group, Inc.</b>
<b>Independent Insurance Agents of North Carolina, Inc.</b>	<b>Steven D. Smith Bagwell &amp; Bagwell, Inc.</b>
<b>Appointed by the Commissioner of Insurance</b>	<b>W. Hutson Wester, II Wester Realty &amp; Insurance Agency, Inc.</b>
<b>Appointed by the Commissioner of Insurance</b>	<b>John E. Wooten Green &amp; Wooten Insurance</b>

#### Ex-Officio Member

**James E. Long  
Commissioner of Insurance**

#### Public Members

**Frederick M. Tate – Elizabethtown, NC  
Steve J. Whitley - North Wilkesboro, NC**

**\*Chairman**

**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 *	Eagle Insurance Company
Rating	Liberty Mutual Insurance Company
Investment	Nationwide Mutual Insurance Company
Legal Committee	Liberty Mutual Insurance Company

\*This is a joint AIPSO/NCRF committee.

**MEMBERSHIP**

All companies licensed to write and writing automobile liability insurance in the State are required to become members of the Reinsurance Facility. As of September 30, 2002, there were 481 member companies. New members during the year were:

*Alamance Insurance Company  
Casualty Reciprocal Exchange  
Argonaut Great Central Insurance Company  
Commercial Guaranty Insurance Company  
Diamond State Insurance Company  
GMAC Insurance Company Online, Inc.  
Insurance Company of the West*

*Alfa Mutual Insurance Company  
Mid-Continent Casualty Company  
CNL/Insurance America, Inc.  
Continental Western Insurance Company  
GMAC Direct Insurance Company  
Georgia Casualty & Surety Company  
Planet Indemnity Company*

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

*Acceleration National Insurance Company  
Homesite Insurance Company*

*Credit General Insurance Company  
International Indemnity Company*

*NN Insurance Company*

## **FACILITY OPERATIONS**

The North Carolina Reinsurance Facility is located in leased offices at 5401 Six Forks Road, Raleigh, North Carolina. At the end of this report period, there are fourteen full-time associates and one part-time associate. Responsibility for day-to-day Facility operations is by this management staff some of which also perform duties for the North Carolina Rate Bureau and the North Carolina Insurance Guaranty Association:

### **MANAGEMENT STAFF**

**Raymond F. Evans, Jr.**  
**General Manager**  
E-Mail - [rfe@ncrb.org](mailto:rfe@ncrb.org)

**Robert M. Greer**  
**Director of Operations**  
E-Mail - [rmg@ncrb.org](mailto:rmg@ncrb.org)

**F. Timothy Lucas**  
**Automobile Manager**  
E-Mail - [ftl@ncrb.org](mailto:ftl@ncrb.org)

**Robert M. Newton**  
**Claims Manager**  
E-Mail - [rmn@ncrb.org](mailto:rmn@ncrb.org)

**Jannet B. Barnes**  
**Compliance Manager**  
E-Mail - [jbb@ncrb.org](mailto:jbb@ncrb.org)

**Edith T. Davis**  
**Operations Manager**  
E-Mail - [etd@ncrb.org](mailto:etd@ncrb.org)

**David E. Sink**  
**Director of Finance & Operations**  
E-Mail - [des@ncrb.org](mailto:des@ncrb.org)

### **OPERATIONS**

The Staff of the NCRF is charged with annually overseeing approximately \$600 million in reinsurance premiums, over two million cession transactions, over twenty-two million accounting transactions, approximately \$150 million of Recoupment surcharges, over \$500 million in loss reimbursements to members, and maintaining over \$600 million in reserves for losses. This is all done effectively with a budget of approximately \$3 million or less than ½ percent of premium.

During this report year, increased emphasis has been placed on providing assistance and training to member companies and implementing increased automation of Facility operations with assistance from AIPSO. Advances in automation and process improvement include establishment of a virtual private network for more efficient and secure exchange of data with AIPSO, and elimination of microfiche and paper for numerous reports converted to electronic media. Member companies are being urged to minimize the use of paper cession notice submissions and migrate entirely to the more efficient electronic methods. To more accurately reflect the true cost of processing, the charge for keying cession notices submitted on paper was increased from 15 cents to 50 cents effective in October 2002.

Enhancements to the Facility website include publishing manuals, circular letters, forms, and special calls for information in either printable or downloadable formats; providing a "Contacts" information page; and the addition of a "Frequently Asked Questions" page.

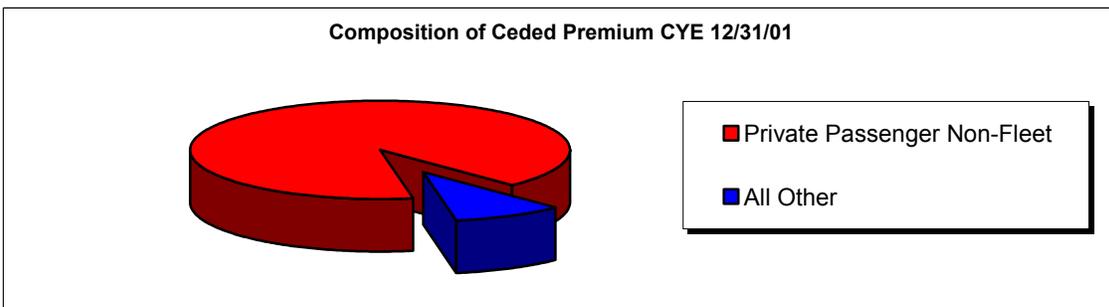
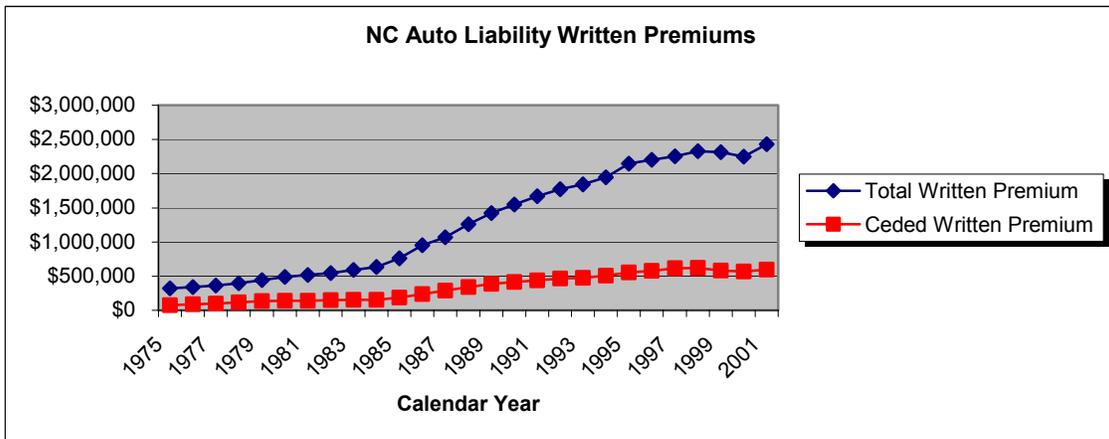
## OPERATING RESULTS

Each ceding company must submit to the Facility a monthly detailed report of premiums and paid losses for policies ceded to the Facility, a Monthly Recoupment Report summarizing Facility surcharges on both ceded and non-ceded policies, and a Monthly Summary Report from which the company receives credit for its predetermined expense allowances to cover acquisition, underwriting and claim adjustment expenses. Each ceding company also submits a quarterly report of losses on ceded policies that have been reported but have not yet been settled. These detail reports are also entered into the computer masterfile.

After the monthly accounting reports are received from the ceding companies and balanced, there is a monthly cash settlement with the ceding companies. Companies whose written premiums and recoupment surcharges due the Facility exceeded the total of their paid losses plus expense allowances and other credits must pay the balances to the Facility. Companies whose written premiums and recoupment surcharges due the Facility were less than the total of their paid losses and other credits collect the deficit from the Facility.

## PREMIUMS

During this report period the NCRF was the largest residual market mechanism in the United States. Almost one quarter of automobile liability premiums written in North Carolina were in the Facility. Despite an increase in premium, the Facility's share of the market was slightly lower in calendar year 2001 than 2000, excluding the effect of premium refunds. Currently, the premiums consist of approximately 90% Private Passenger Non-Fleet business and 10% All Other business.



## **RECOUPMENT SURCHARGE**

One of the key components of the NCRF that differentiates it from other residual markets is “clean risks.” By statute, any ceded risk with no Safe Driver Insurance Plan points and no inexperienced operators in the household qualifies for the voluntary rate.

Unfortunately there is a difference between the voluntary rate and the ceded “clean risk’ actuarially sound rate. This difference is recouped through surcharges to all drivers in North Carolina.

During a meeting held on April 4, 2002, the Board of Governors voted (1) with respect to private passenger nonfleet vehicles to implement a “clean risks” recoupment surcharge of 6.79% (before agent compensation) and no loss recoupment surcharge, and (2) with respect to other than private passenger nonfleet risks, that no loss recoupment surcharge be applied to policies written to become effective during the twelve months beginning July 1, 2002.

A summary of all “clean risks” recoupments since the inception of the “clean risks” recoupment through July 2002 is located in the Appendix.

### **CLEAN RISK RECOUPMENT SURCHARGE ACTIVITY BY RECOUPMENT PERIOD**

(Thousands of Dollars)

<b>Surcharge Period</b>	<b>Surcharge Percentage</b>	<b>Surcharge Written</b>
7/1/02 to 6/30/03	6.79%	\$14,930 *
7/1/01 to 6/30/02	7.22%	\$155,283
7/1/00 to 6/30/01	5.15%	\$107,588
7/1/99 to 6/30/01	1.07%	\$23,070
7/1/98 to 6/30/99	3.63%	\$74,728

\* Through 7/31/02

## **FINANCIAL RESULTS**

Facility financial reports are prepared and distributed quarterly to member companies. The Facility operates on a fiscal year from October 1 to September 30. Results from the most recent period are detailed in the following Income Statement and Balance Sheet. Comparative Statements of Income for the last five years are located in the Appendix.

**NORTH CAROLINA REINSURANCE FACILITY**  
Statement of Income - All Policy Years Combined  
Fiscal Year Commencing October 1, 2001  
Quarter Ending June 30, 2002

	<u>Current Quarter</u>	<u>Fiscal Year-to-Date</u>
<b>Underwriting Income</b>		
Premiums Written	\$149,019,477.51	\$461,777,485.01
Unearned Premiums (Prior)	188,782,770.00	177,315,375.00
Unearned Premiums (Current)	(181,402,421.00)	(181,402,421.00)
Earned but Unbilled Premium (Prior)	(72,182.00)	(93,260.00)
Earned but Unbilled Premium (Current)	89,184.00	89,184.00
	<hr/>	<hr/>
Premiums Earned	\$156,416,828.51	\$457,686,363.01
Clean Risk Subsidy	38,204,935.72	115,341,363.68
	<hr/>	<hr/>
<b>Total Underwriting Income</b>	<b>\$194,621,764.23</b>	<b>\$573,027,726.69</b>
<b>Underwriting Deductions</b>		
Losses Incurred	\$119,331,144.83	\$383,468,003.98
Change in Premium Deficiency Reserve	0.00	0.00
Claims Expense Allowance	18,953,940.86	58,423,749.40
Ceding Expense Allowance	38,182,049.20	117,626,462.09
	<hr/>	<hr/>
<b>Total Deductions</b>	<b>(\$176,467,134.89)</b>	<b>(\$559,518,215.47)</b>
<b>Net Underwriting Gain (Loss)</b>	<b>\$18,154,629.34</b>	<b>\$13,509,511.22</b>
<b>Miscellaneous Income &amp; Expenses</b>		
Membership Fees	\$200.00	\$47,900.00
Interest Earned	10,156,044.10	27,146,821.91
Other Income	89,755.34	359,800.16
Miscellaneous Charges	163,743.70	514,908.95
Other Expenses Incurred	(447,728.22)	(1,641,671.12)
	<hr/>	<hr/>
<b>Total Miscellaneous Income &amp; Expenses</b>	<b>\$9,962,014.92</b>	<b>\$26,427,759.90</b>
<b>Net Operating Gain (Loss)</b>	<b>\$28,116,644.26</b>	<b>\$39,937,271.12</b>

**MEMBERS' EQUITY ACCOUNT**

<b>Members' Equity - Beginning of Period</b>	\$33,736,946.17	\$21,916,319.31
Net Operating Loss Distributed to Member Companies	0.00	0.00
Net Operating Gain (Loss)	28,116,644.26	39,937,271.12
Loss Recoupment/Allocation	0.00	0.00
	<hr/>	<hr/>
<b>Members' Equity - End of Period</b>	<b>\$61,853,590.43</b>	<b>\$61,853,590.43</b>

**NORTH CAROLINA REINSURANCE FACILITY**

**BALANCE SHEET**

June 30, 2002

**ASSETS**

Cash Unrestricted	\$2,287,584.71
Cash Restricted (Including Escrow)	1,805,000.00
Investments	605,066,406.30
Accrued Interest Receivable	7,540,111.90
Accounts Receivable - Member Company Balances	28,632,755.30
Miscellaneous Charges Receivable (Net)	98,232.40
Membership Fees Receivable	100.00
Assessments Receivable	145,246.70
Computer Equipment (Net)	0.00
Other Assets	0.00
<b>Total Assets</b>	<b>\$645,575,437.31</b>

**LIABILITIES TO MEMBER COMPANIES**

Miscellaneous Accounts Payable - Rounding	\$0.00
Reserve - Unearned Premiums	181,402,421.00
Earned But Unbilled Premium Reserve	(89,184.00)
Premium Deficiency Reserve	0.00
Reserve - Outstanding Losses - Case	301,716,447.70
Reserve - Outstanding Losses - IBNR	69,983,870.00
Advanced Premium Liability	57,346.00
Deferred Revenue - Recoupment	0.00
Accounts Payable - Member Company Balances	30,650,937.68
Accounts Payable - Miscellaneous	8.50
<b>Total Liabilities</b>	<b>\$583,721,846.88</b>
Participating Members' Equity	61,853,590.43
<b>Total Liabilities and Members' Equity</b>	<b>\$645,575,437.31</b>

## 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. The following chart summarizes investment activity for the past five years. The decline in investment balance in the period ended 9/30/01 reflects the return of significant premiums held in escrow over the last few years as the result of a rate case settlement.

### INVESTMENT ACTIVITY BY FISCAL PERIOD

<b>Fiscal Period</b>	<b>Total Investment Income</b>	<b>Ending Investment Balance</b>	<b>Total Return on Investment</b>
* FYE 9/30/02	\$41,662,955	\$617,132,774	8.19%
FYE 9/30/01	43,224,647	579,014,754	12.45%
FYE 9/30/00	40,858,163	684,346,275	6.21%
FYE 9/30/99	44,852,356	757,220,250	1.24%
FYE 9/30/98	53,023,720	750,425,064	10.15%

\* Preliminary

## PROCESSING

As part of the Facility staff, the Operations department is responsible for cession transactions, accounting transactions and reports, and error correction issues. If a company wants to cede a policy to the Facility it must file a cession notice identifying the case individually by name, policy number, effective and expiration dates. Cession notices are submitted in the form of individual pieces of paper, printed lists, magnetic tape or by telecommunication. The resulting cession notice data are then entered into a computerized masterfile.

AIPSO, as the central processor, processed over 2.4 million cession transactions and more than twenty-two million accounting transactions last year. 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.

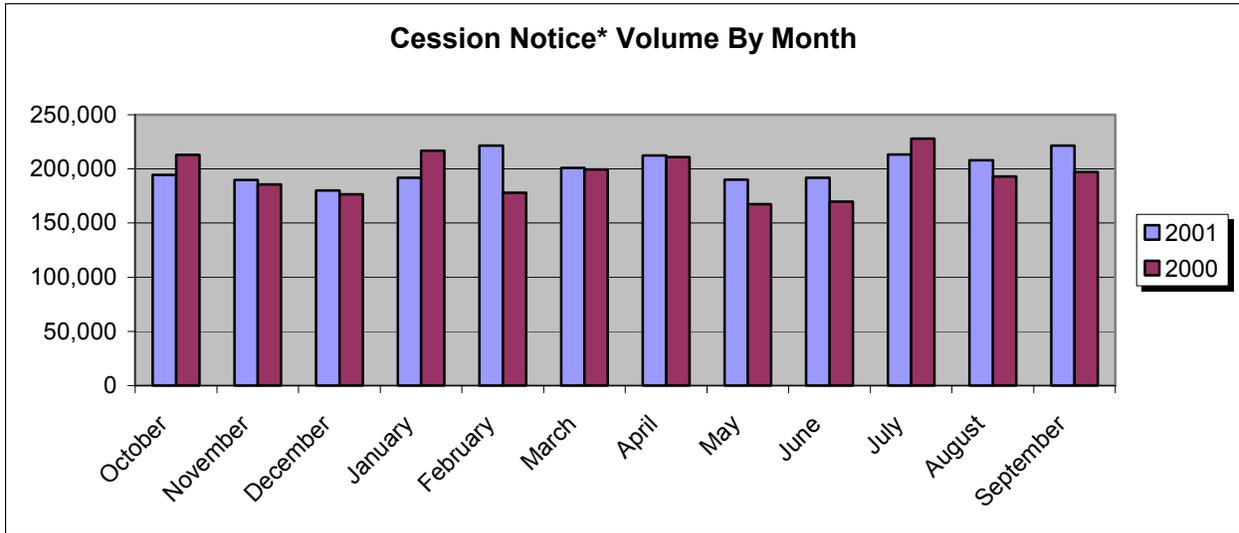
## CESSION VOLUME

The chart below shows the number of cession notices processed by the Facility monthly during the fiscal years ended September 30, 2002, and 2001. The following charts show the number of processed cession notices by class and transaction code for the same period of time.

### CESSION NOTICES\* PROCESSED MONTHLY

<u>Month</u>	<u>Year Ended</u> <u>9/30/02</u>	<u>Year Ended</u> <u>9/30/01</u>
October	175,492	194,623
November	208,019	189,667
December	192,178	180,158
January	184,508	191,839
February	226,368	221,590
March	205,335	200,949
April	208,505	212,383
May	194,238	189,942
June	205,315	191,941
July	200,854	213,398
August	218,267	208,066
September	<u>214,219</u>	<u>221,581</u>
Total	<u>2,433,298</u>	<u>2,416,137</u>

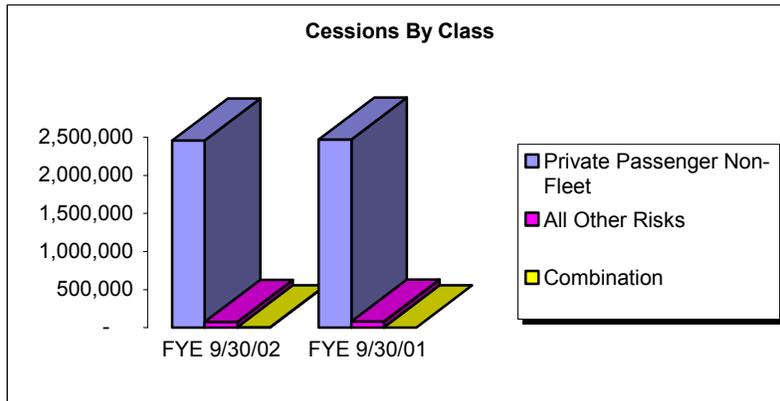
\* Excluding Transaction Code 4 -- Policy or Renewal Not Taken.



## NORTH CAROLINA REINSURANCE FACILITY

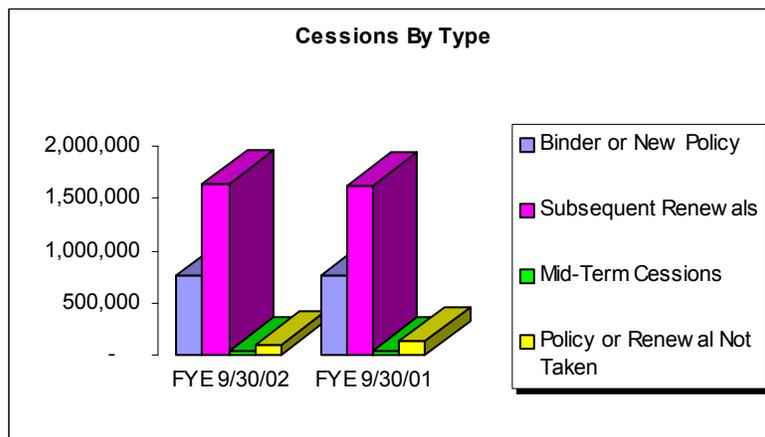
### Cessions By Class

	FYE 9/30/02	FYE 9/30/01
<b>Private Passenger Non-Fleet</b>	2,456,597	2,469,358
<b>All Other Risks</b>	75,573	78,852
<b>Combination</b>	4,878	2,029
<b>Total</b>	2,537,048	2,550,239



### Cessions By Type

	FYE 9/30/02	FYE 9/30/01
<b>Binder or New Policy</b>	766,883	759,941
<b>Subsequent Renewals</b>	1,630,251	1,622,446
<b>Mid-Term Cessions</b>	36,164	33,750
<b>Policy or Renewal Not Taken</b>	102,755	134,102
<b>Total</b>	2,536,053	2,550,239



## **COMPLIANCE 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) 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.
- (3) 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.
- (4) Audits were conducted of each designated carrier's claims and processing activities in connection with designated business.
- (5) 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.
- (6) 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. Staff conducted several training sessions for member company personnel at the Facility Office and at member company office.
- (7) Special audits of taxis in Charlotte and Raleigh were performed to insure that all risks were properly rated territorially. Any discrepancies were noted and followed up with member companies to insure that corrective action was taken.
- (8) Special audit of golf carts was performed to insure that recoupment surcharges were not applied and that these risks were not ceded to the Facility. Any discrepancies were noted and followed up with member companies to insure that corrective action was taken.

The Staff continues to review monthly reports and correspondence on a day-to-day basis for any indication for non-compliance with the Rules of Operation. Any discrepancies were noted and followed up with member companies to insure that corrective action was taken.

## **CLAIMS ACTIVITY**

During the fiscal year ended September 30, 2002, the Claims Staff, with general guidance from the Claims Committee, reviewed 473 claim files involving 1,528 claim features ceded to the Facility from 32 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 therefore 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 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 2002. 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.

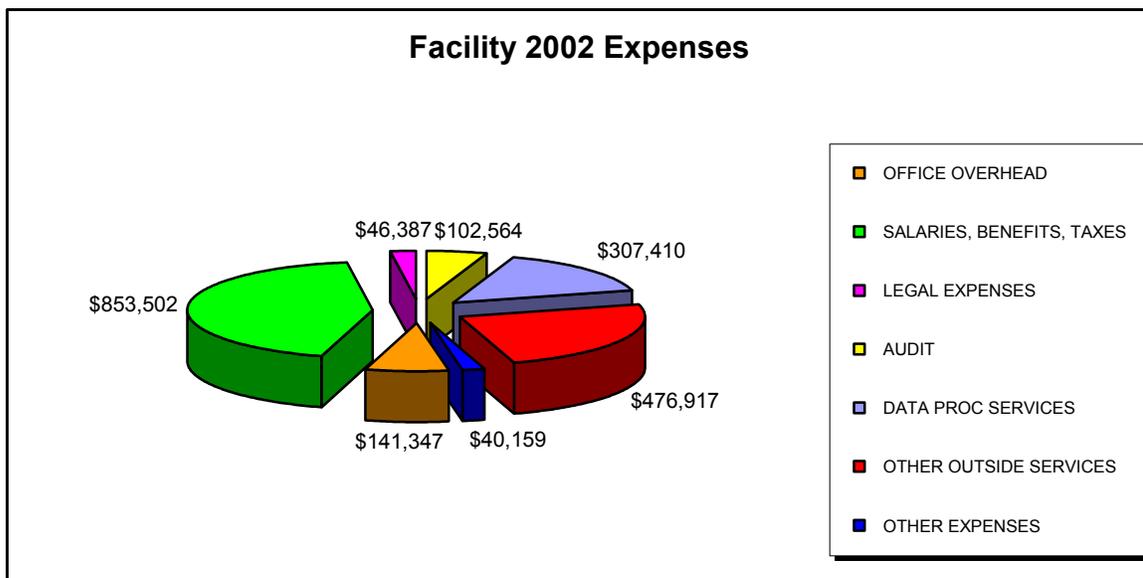
Information and assistance was provided, whenever requested during the year, to member company personnel in connection with Facility claim matters and accounting procedures respecting claims.

## OPERATING EXPENSES

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

### NC REINSURANCE FACILITY

	2002 EXPENSES	2001 EXPENSES
EXPENSES		
SALARIES & ADMINISTRATION	\$621,478	\$626,516
PAYROLL TAXES	47,385	52,722
RENT and ALTERATIONS	72,338	62,842
SOFTWARE & SYSTEMS	1,250	12,825
POSTAGE	12,128	12,652
PRINTING & SUPPLIES	13,239	11,395
FURNITURE & EQUIPMENT	28,049	47,445
TELEPHONE	14,343	14,992
EMPLOYEE BENEFITS	184,639	132,345
LEGAL EXPENSES	46,387	59,440
AUDIT	102,564	106,836
DATA PROCESSING SERVICES	307,410	346,577
OTHER OUTSIDE SERVICES	476,917	507,168
OTHER EXPENSES	40,159	11,134
OPERATING EXPENSES	\$1,968,287	\$2,004,889



# RATES, FORMS AND RULES CHANGES

## RATE REVISIONS

### 1) 2001 Private Passenger Automobile Insurance Rate Filing

On May 1, 2001, the Rate Bureau filed with the Commissioner of Insurance revised rates for 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), liability insurance rates applicable to motorcycles ceded to the Reinsurance Facility and uninsured/underinsured motorist coverage rates for use in connection with the non-fleet private passenger automobiles and motorcycles 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.

For various reasons, the public hearing was postponed and convened on September 25, 2001. Following the conclusion of the public hearing on October 31, 2001, the Commissioner of Insurance on December 12, 2001, entered an Order disapproving the Rate Bureau's filed rates and ordering overall rate level changes of -13.0% for non-fleet private passenger automobiles and -15.9% for motorcycles effective April 1, 2002.

During a meeting held on January 3, 2002, the Governing Committee of the Rate Bureau voted (1) to appeal to the North Carolina Court of Appeals those provisions included in the Commissioner's Order dealing with the disapproval of non-fleet private passenger automobile and motorcycle insurance rates filed by the Rate Bureau; (2) to proceed with implementation of rate level changes that result in an overall rate level change of +5.0% for non-fleet private passenger automobiles; and (3) to implement a rate level change of -4.9% for motorcycles liability coverage.

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

### 2) 2002 Private Passenger Automobile Rate Filing

On February 1, 2002, the Rate Bureau filed with the Commissioner of Insurance revised rates for private passenger automobiles and motorcycles. The filing proposed an overall rate level increase of 5.9% for private passenger automobile liability and physical damage and an increase of 3.5% 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), liability insurance rates applicable to motorcycles ceded to the Reinsurance Facility and uninsured/underinsured motorist coverage rates for use in connection with non-fleet private passenger automobiles and motorcycles ceded to the Reinsurance Facility. The filing also proposed changes in the uninsured and underinsured motorist rates, increased limits factors and classification and sub-

classification factors. It was proposed to become effective October 1, 2001.

On March 14, 2002, the Commissioner of Insurance issued a Notice of Public Hearing in connection with this filing and the public hearing convened on July 15, 2002. The Public Hearing ended on August 28, 2002.

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

3) 2002 Private Passenger Automobile Insurance Rate Filing for “Other Than Clean Risks”

On June 27, 2002, 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 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 8.5%. These changes will become effective with respect to policies effective on or after October 1, 2002.

**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, 2002:

<u>Effective Date</u>	<u>Subject</u>
October 1, 2001	Amendments – Plan of Operation
October 1, 2001	Eligibility for Cession of Higher Coverage Limits
October 15, 2001	New and Revised Commercial Auto Coverage Policy Forms
April 1, 2002	Amendatory Endorsement – NC Personal Auto Policy Program – NC 00 12 (01 02) & NC 00 13 (01 02)

## **OTHER FACILITY ACTIVITY**

Changes and other activity during the report period:

### **FACILITY MANUAL AMENDMENTS**

Section 3 of the North Carolina Reinsurance Facility Standard Practice Manual was amended (1) to include language clarifying the cession acknowledgement procedure; and (2) to amend Form NCRF-7 Correction of Notice of Cession to include a field for the preparer's name and telephone number. Section 4 of the North Carolina Reinsurance Facility Standard Practice Manual was amended (1) to require that the policy number format for Surcharge Detail Reports match the format for the cession notices submitted by the same company; (2) to revise the rules of assignment of ceding expense allowances to new companies; (3) to reformat the NCRF Recoupment/Allocation history exhibit into two exhibits; and (4) to reflect the implementation of a new "clean risks" recoupment surcharge effective July 1, 2002.

### **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, 2002, 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 report period ending September 30, 2002, the Board of Governors requested that the NCRF Claims Committee review and make recommendations on two petitions filed by member companies seeking reimbursement of payments for judgments in excess of the ceded policy limits or for payments associated with defending or paying bad faith claims arising out of the handling of claims involving ceded policies.

The Board's first request was on October 24, 2001 involving a petition by Integon General Insurance Corp. The Claims Committee met on March 20, 2001 and presented its recommendation to the Board on April 2, 2002. After review of the Committee's report, the Company withdrew the petition and no further action was taken.

The Board's second request was on September 10, 2002, involving a petition by Atlantic Casualty Insurance Company. The Claims Committee met on September 26, 2002 to review the file and hear from the petitioner. The petitioner contacted the Committee's outside Counsel and requested that no recommendation be made to the Board until after the settlement of the remaining open claim. The petitioner retains the right to have the matter considered at a later time and the Committee will at that time submit its findings and recommendations to the Board.

### **LEGISLATION**

The North Carolina General Assembly met in 2002 and enacted legislation that affected automobile insurance coverages subject to the Rate Bureau's jurisdiction as follows:

- |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| HB-760  | Amends the Reinsurance Facility statutes to allow cession of coverage limits up to \$250/\$500/\$100 for uninsured and uninsured/underinsured motorist coverage 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 becomes effective when it becomes law. At the end of the period for which this report covers, the Governor had not signed the Bill.                                      |
| HB-1120 | Amends the Reinsurance Facility statutes to allow the Commissioner of Insurance to appoint any agent that is actively writing motor vehicle insurance in this state to the Facility Board of Governors. Prior to this legislation, the agents appointed by the Commissioner had to be members of the Auto Insurance Agents of North Carolina, Inc. or the Independent Insurance Agents of North Carolina, Inc. This Bill becomes effective when it becomes law. At the end of the period for which this report covers, the Governor had not signed the Bill. |

### **DESIGNATED AGENT PROGRAM**

The annual volume of business in the designated agent program has fallen to approximately \$4 million, as market availability is generally not a problem. There were 28 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. Five agents were

eliminated from the program during the year through termination of appointment by agent or designated carrier. There were 22 designated agents assigned to two designated carriers as of September 30, 2002. There were no agent applications pending assignment on that date.

One of the designated carriers, Unisun Insurance Company, is in the process of withdrawing from the program and a new designated carrier, Atlantic Casualty Insurance Company, has been appointed. Some of the designated agents of the withdrawing carrier will be reassigned to the other current carrier, and some to the new carrier.

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 indications for ceding and claims expense allowances for designated business; that the Market Committee consider the appointment a new designated carrier; and that the Audit committee review procedures and findings of the audits of designated carriers.

The Audit Committee met on April 23, 2002, the Market Committee met on June 12, 2002 and the Task Force on NCRF Expense Allowances met on August 26, 2002.

The Board of Governors, upon the recommendations of the advisory Committees in their area of responsibility, established designated carrier expense allowances for the fiscal year beginning October 1, 2002, 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 Atlantic Casualty Insurance Company, Integon General Insurance Corporation and Unisun Insurance Company were eligible to be appointed to serve as designated carriers for the Facility.

Subsequently, the Facility executed new contracts with three companies to serve as designated carriers to become effective October 1, 2002. Unisun's contract is to facilitate the transition of Designated business to the other Designated carriers.

### **CONCLUSION**

This report year has been one of subtle changes. Our objectives have been to comply with the tasks outlined in the enabling statutes and the plan of operation, to become more effective and to increase our compliance activities. We have made great strides in each of these areas.

On the surface the Facility appears to operate pretty much as it has in the past. However, we have made significant changes. Most important, we divided the organization into two segments. One of these is the Operations Department that handles processing. This unit is under the direction of Edith Davis. The other is the Compliance Department, the unit that insures we receive correct premiums and pay appropriate claims. This department is managed by Jannet Barnes. Both units have made great progress in a short time.

Our focus on more automation and more help to customer members has resulted in better processes and better relations with members. In fact, just recently, we received a letter concerning one of our associates. In part the letter says, "I have sent Valerie Pearson a personal thank you in appreciation of all the help she has given me since I assumed the responsibility for cessions and FQ1 reports...." I think this sums up the attitude of those associates working for the Facility.

While it is difficult to assess our performance since the Facility does not have the usual insurance company goals of profit and sales to analyze, we have completed our assigned tasks using less than 0.5% of premiums for administrative expenses.

This has been a successful year for the Facility. We have become more efficient, have better trained associates and are better managers. None of this is possible, even with our progress, without the help of the member company's volunteers on our committees and task forces. Without doubt we have the best group of advisors and experts in insurance helping us manage perhaps the largest reinsurer of auto liability premiums in the world.

Thanks to everyone that helped us this year.

Respectfully Submitted,

Raymond F. Evans, Jr., CPCU

General Manager

RFE:etd

Enclosures