



2016 ANNUAL REPORT

# NCRF

NORTH CAROLINA  
REINSURANCE FACILITY



# REINSURANCE FACILITY

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## 2016 ANNUAL MEETING

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 13, 2016, at the Grandover Resort and Conference Center, Greensboro, North Carolina.



# GENERAL MANAGER'S REPORT



**Ray Evans**  
GENERAL MANAGER

I read somewhere that, “There is no such thing as ready; there is only willing.” We spend a considerable amount of time planning and preparing strategies, but it seems, in the end, while we do our best to be ready, we also have to be willing to change directions to react to events as they unfold. The story of the last year is a good example of this flexibility.

The Reinsurance Facility is unique within the country’s auto residual market. In past years, we have reported that the Facility has the majority of the auto residual market premium in the country, and that hasn’t changed.

In fact, for the latest available year’s data, the Facility has about 75% of the premium for that market. We have cautioned that this alone is not the whole story. The North Carolina uninsured motorist rate is low; every driver has access to insurance coverage, many willing carriers write auto insurance and the percentage of business in the Facility has remained pretty constant over a 40-year period. In the last year or so, this picture has begun to change. To be sure, the Facility continues to have the lion’s share of the countrywide residual market, but it now also has a near historical high percentage of North Carolina auto liability premiums, approaching 30%. Several factors contribute to this change, including the declining cost of gasoline in the U.S., which has increased the miles driven and correspondingly increased claims, and member carriers are ceding more policies.

That carriers are ceding more business is not really a problem, except much of this business, by design, generates significant losses, and the Facility is now incurring losses of approximately \$10,000,000 per month. As a result, staff and a number of Facility committees and task forces have been laboring over solutions. Some avenues available to the Facility are in the form of surcharges. Before these can be used, data has to be accumulated to support any action, and, as the losses have been recent, data has been slow to catch up, so these changes just became effective in October 2016, and the operating results should improve shortly thereafter.

Another example of our willingness is our response to a growing problem with insureds with questionable North Carolina residency seeking commercial auto policies. The Facility’s book of commercial auto liability policies is only about 10% of ceded premium. However, it does present us with considerable exposure and potential volatility as the number of risks is relatively low. The industry saw similar issues with personal auto policies a few years ago, illustrated by a series of New York television reports focused in New York neighborhoods where many vehicles displayed North Carolina license plates. The problem was rectified by changes in the North Carolina private passenger eligibility and rate evasion statutes. Truckers and bus companies could now be taking similar advantage of loopholes in the law. The Facility, in collaboration with the Department of Insurance, the Secretary of State, the Department of Motor Vehicles, the Federal Motor Carrier Safety Administration enforcement folks and a number of member carriers, was able to suggest a legislative fix which became part of the 2016 Legislative short session DOI agency bill and has been enacted. The Facility’s part in this action was providing a place for this group to meet, scheduling and facilitating meetings, researching details for every discussion and helping to craft the legislation, all a part of being “willing” to resolve a problem.

While we might not be ready for every eventuality, by diligently preparing and always trying to be better, and by having associates, Board of Governor members, committee members, carriers and other external resources willing to tackle any problem, the Facility has been able both to comply with our governing statutes and respond to a whole range of events in an effective manner.

# MESSAGE FROM THE CHAIRMAN

“Really busy” has become the new normal. Over the past year, the Facility has been involved in many different types of initiatives and has made every attempt to provide innovative solutions to various issues. It has also been a year of great collaboration.

Listed below are some of the highlights for the year:

- The Facility hosted forums designed to assist the Commissioner of Insurance and solicit input into the development of statutory language, which became part of House Bill 287 to address commercial auto rate evasion.
- The Facility provided input related to modifications to House Bill 148 – Insurance Required for Mopeds.
- Personal Auto program changes included the adoption of a Transportation Network Company (TNC) mandatory exclusion endorsement and a new limited TNC coverage program.
- Commercial Auto program changes included amendments to the Facility Commercial Auto Manual rules to address the rating of out-of-state risks and the development of out-of-state base rates to simplify the rating of these risks.
- A loss recoupment was implemented for private passenger policies to address a deficit in members’ equity resulting from deteriorating private passenger experience.
- The deployment of EDGE system changes allowed clean risk and loss recoupment surcharges on private passenger policies to be reported to the Facility on a combined basis, resulting in programming cost savings for the member companies.
- Cession volume, premiums and paid losses continued to increase over the same periods for the prior year. Private passenger policies-in-force continued to steadily increase while commercial auto policies declined significantly.
- 2015 operating expenses were less than the annual budget for the same period and were followed by another decrease in the operating budget for 2016 over the prior year. The operating expenses continue to be less than 1% of the Facility annual premium.
- Our investment portfolio continued to outperform the benchmark despite the decline in account balance resulting from the distributions necessitated by net operating losses.
- A new independent audit firm was engaged for the 2014-2015 fiscal year audit after several decades with another firm.

The world is changing at a more rapid pace than ever before, and it is our responsibility to respond accordingly. This ability to respond requires engagement and support from staff, counsel, the Board of Governors and the committee members who met numerous times in the past year to address these important issues, and they delivered. It has been a privilege to serve as Chair for these past two years and work with these folks.

**Jim McCafferty**  
Universal 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. Eight meetings of the Board were held during the year, including four 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	Fernando Hernandez
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	Molly Dunn
Universal Insurance Co*	Jim McCafferty

Public Members
J. David Walker, Lumberton, NC
Steven Smith, Raleigh, NC

Ex-officio Member
Wayne Goodwin, Commissioner of Insurance

# STANDING ADVISORY COMMITTEES

The Plan of Operation establishes a number of advisory committees. These committees oversee the activities of the Facility and formulate recommendations for presentation to the Board of Governors. In addition, several other specialty advisory groups perform similar tasks for the Facility throughout the year.

## Task Force on Expense Allowances

Members	Representative
Allstate Insurance Co	Fernando Hernandez
Nationwide Mutual Insurance Co*	Terry Collins
Sentry Insurance A Mutual Co	Peter Sampson
State Farm Mutual Automobile Ins Co	Alan Bentley
Agent	Tim Ward

## Task Force on Recoupment

Members	Representative
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co	Terry Collins
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Progressive Casualty Insurance Co	Kevin McGee
Southern Guaranty Insurance Co	Stephen H. Cone
State Farm Mutual Automobile Ins Co*	Alan Bentley
Agent	Robert M. McVay

## Audit Committee

Members	Representative
Liberty Mutual Insurance Co*	Judi Gonsalves
NC Farm Bureau Mutual Insurance Co	Brian Top
Nationwide Mutual Insurance Co	Greg Kilburn
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

\* Chair

# MANAGEMENT REPORT

## INTRODUCTION

Several significant shifts in the Facility have occurred in recent years. First, the Facility has grown from 24% to 28% of statewide written liability premium between 2010 and 2015. Revenue exceeded \$1 billion dollars in 2015—and yet the Facility lost money. The details, and how the Facility has responded, are included in this report.

## OPERATING RESULTS

Managing members' equity effectively is one of our highest priorities. During the past year, the combined members' equity balance decreased from -\$69.9 million to -\$196.5 million. Both staff and committees monitor the changes in these balances very closely, and appropriate action is taken under the oversight of the Board of Governors and within the guidelines outlined in the general statutes.

After several years of fairly stable results, the commercial auto experience began to turn negative in 2010, with the pace of losses increasing in recent years. Twenty-two of the past 26 quarters have seen operating losses posted for this line, eroding a surplus of \$52 million to a deficit of \$42 million as of June 2016. The Facility has responded to this in numerous ways. More details on these responses can be found throughout the remainder of the report, but the highlights are summarized here.

Annual rate reviews have resulted in several rate increases and, following two double-digit rate increases effective in 2015, the Facility filed for another significant increase to become effective for policies issued on or after October 1, 2016. Cession volume for commercial business declined 10% in 2015 over the prior year, likely a byproduct of the rate increases. As premium volume drops and losses from prior periods get settled, it is anticipated that operating losses will continue for some period to come.

To address the growing number of out-of-state commercial risks applying for North Carolina insurance policies, Commissioner of Insurance Wayne Goodwin requested the assistance of the Facility to develop a proposal for

legislative changes that would prevent companies from other states, attracted by North Carolina's low auto rates, from obtaining coverage and/or lower rates than the out-of-state rates they should be paying. The result was a consortium of state and federal agencies, organizations and members of the industry collaborating toward this common goal while trying to ensure that no legitimate North Carolina business was adversely impacted in the process. During the 2016 session of the General Assembly, the Department of Insurance sponsored House Bill 287, which contained provisions for commercial auto rate evasion reform (more information can be found under *Legislative Changes*). In addition, the Facility revised several manual rules for the rating of out-of-state risks and developed and filed a program for out-of-state base rates to simplify the rating process for the North Carolina carriers. See *Rules, Rates and Forms* for more details.

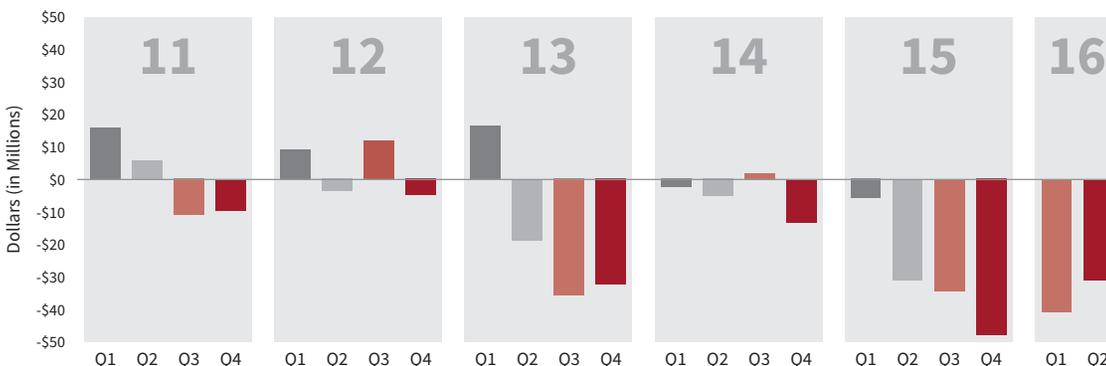
With respect to private passenger business, there are some similarities and some notable differences. As noted in previous reports, Facility operating losses in 2013 were orchestrated by implementing less than the full indications for clean risk recoupment and were designed to reduce the private passenger members' equity surplus of approximately \$84 million. The surplus was reduced as planned but, at about this same time, the experience worsened, and the clean risk recoupment was insufficient to cover the losses.

In mid-2014, gas prices began to drop significantly, and remain low today. The market has seen an increase in miles driven, likely generated by this reduction, and a corresponding increase in claims. As a result, the private passenger experience has been deteriorating since late 2014. Compounding this effect was the increase in cession volume for private passenger policies and specifically of "clean risks" who, by law, may not be charged more than the voluntary rate. There has been no rate increase for these risks in several years. The clean risk recoupment surcharge has returned to the full indication but is based



**Edith Davis**  
CHIEF OPERATING OFFICER

NET RESULTS OF OPERATIONS (AFTER RECOUPMENTS)



on 2014 experience, and through March 2016, operating losses generated a members' equity deficit of \$113 million. As a result, the Facility was forced to implement a loss recoupment surcharge to become effective in October 2016. Details on this are located under *Recoupment*.

While the implementation of the loss recoupment for the private passenger deficit follows the statutory guidelines for the recovery of such a loss, this action is very infrequent; it has been 12 years since the last loss recoupment. This measure is also temporary in nature and will be discontinued once the Facility private passenger losses are recovered.

## VOLUME

During this report period, the North Carolina Reinsurance Facility was 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 a chart above, the market share has increased in each of the last five years.

Of the total ceded exposures during this fiscal period, 76% were private passenger "clean risks," and 21% were private passenger "other-than-clean" risks, consistent with the previous fiscal year. The remaining 3% of ceded exposures were commercial auto risks.

As of May 2016, approximately 1.3 million policies were in force—97% were private passenger non-fleet policies, and 3% were all other policies—generating over 30 million transactions annually. Overall, total cession notice volume is about 1.5% higher than for the same period last year, but calendar year 2015 was up 4.2% over calendar year 2014.

Finally, written premium for the fiscal year ending September 2016 is projected to exceed \$960 million, which is approximately 4% higher than the previous fiscal year.

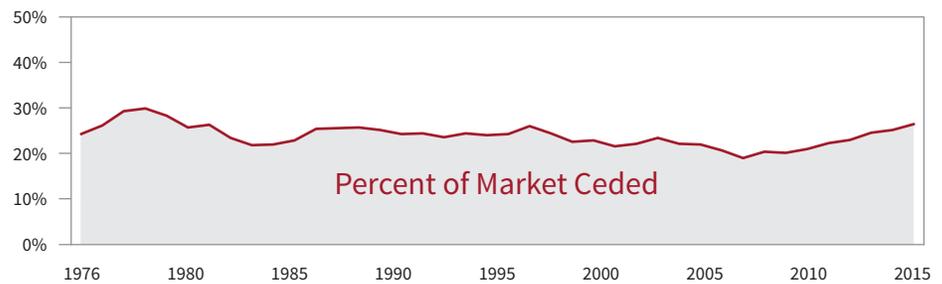
## RATES, RULES AND FORMS

### Personal Auto Program Changes

Effective March 1, 2016:

The Facility filed private passenger auto rate level adjustments of 1.15% for liability coverages for "other-than-clean" risks and 1.11% for clean risks ceded to the Facility as a result of House Bill 97 – Appropriations Act

SHARE OF NC AUTO LIABILITY MARKET CEDED – BY CALENDAR YEAR



of 2015, in which a new tax was implemented on automobile repair labor and fees were increased for Motor Vehicle Reports (MVRs) and salvage titles.

Effective October 1, 2016:

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

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

In October 2015, the Facility adopted two revisions to the NCRF Standard Practice Manual. Recognizing that many companies now use MVR monitoring services, the first amendment to the underwriting requirements removed the term MVR and replaced it with "records of convictions for moving traffic violations," identical to the language used in N.C.G.S. 58-36-65(e) and the North Carolina Rate Bureau Personal Automobile Manual. The second amendment clarified that, with respect to policy files requested for audit, companies must provide a Motor Vehicle Report (MVR) for all operators of the vehicles insured under each ceded policy subject to rating under the Safe Driver Insurance Plan.

The Facility also adopted revisions to the Personal Auto Manual Rule 5 – Safe Driver Insurance Plan (SDIP) to comply with the provisions of House Bill 259, which amended the property damage accident thresholds for private passenger auto.

In addition, the Reinsurance Facility adopted revisions to the North Carolina Personal Auto Policy Program to recognize the operation of Transportation Network Companies (TNC). These revisions clarified that the public or livery conveyance exclusion in the Personal Auto Policy applies while a driver is logged into a TNC application and are incorporated into

a mandatory endorsement to be used with the Personal Auto Policy effective May 1, 2016.

The Reinsurance Facility also introduced an amendment to the Personal Auto Policy Program to allow cession of the drivers of the TNCs. The new Personal Auto Manual rule and endorsement offered limited Transportation Network Driver coverage when no passenger is in the vehicle for use with the Personal Auto Policy in the Facility. Coverage for drivers providing services for TNCs is optional; companies are not required by law to provide such coverage.

### Commercial Auto Program Changes

For commercial auto risks, the Facility filed revised basic limits liability rates 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 those coverages and for garages. The rate level for garages was not revised. Reflecting the significant deterioration in commercial loss experience, the various rate level changes in this filing averaged +24.5% 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. Rule 12 – Private Passenger Types revised the definition of private passenger auto to track the definition in the Personal Auto Manual. Both became effective immediately.

Two additional revisions were introduced at the same time. Rule 32 – Premium Development – Other Than Zone Rated Autos under the Trucks, Tractors and Trailers Section

and Rule 42 – Premium Developmen – 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. These changes became effective on October 1, 2016.

### 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 2015, the Board of Governors implemented a clean risk recoupment surcharge of 4.06% (before inclusion of agent compensation), applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2015, through September 30, 2016.

In June 2016, the Board of Governors authorized a new clean risk recoupment surcharge of 4.94% (before inclusion of agent compensation), which will be applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2016, through March 31, 2017. For the current fiscal year through June 2016, income from clean risk surcharges has generated approximately \$101.5 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 will be applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2016, through March 31, 2017. This recoupment will be adjusted at that time and continued as needed to recover the private passenger members’ equity deficit, which was \$113 million at March 31, 2016.

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.

New EDGE system data collection functionality for recording audits, under development last year, was deployed in October 2015. Enhancements are planned for late 2016 and 2017.

### 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. There were two significant bills of interest enacted during the 2016 session.

House Bill 287 – Amend Insurance Laws, sponsored by the Department of Insurance, 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.

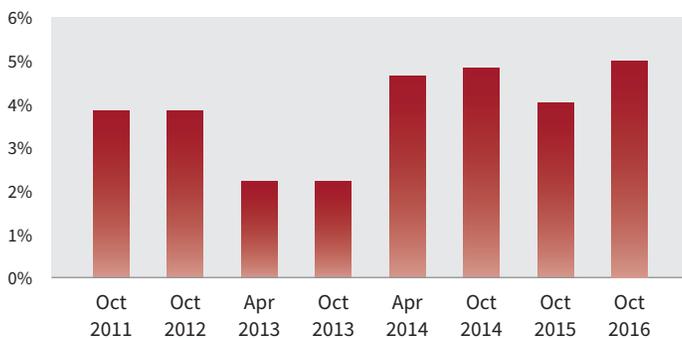
House Bill 959 – DOT Proposed Legislative Changes included provisions that modified legislation passed in 2015 (House Bill 148 then) that had required moped operators to have liability insurance by July 1, 2016, specifically excluded that coverage from being eligible for cession to the Facility and removed moped coverage from the jurisdiction of the North Carolina Rate Bureau. House Bill 959 modified that law, effective July 1, 2016, to maintain jurisdiction for moped liability coverage under the Rate Bureau (but not for physical damage insurance) and to allow mopeds to continue to be ceded to the Facility.

### CONCLUSION

During the fast and furious activity that was this past year, we made every attempt to be engaged, helpful and most of all responsive while addressing many significant developments within the industry. Our staff, vendors and counsel were all creative, collaborative and diligent as we developed new and innovative programs, products and processes in addition to our regular work of managing the Facility. And we received nothing short of tremendous support and encouragement from our committees and Board of Governors on all of these efforts.

*Edith Davis*  
Chief Operating Officer

CLEAN RISK RECOUPMENT SURCHARGES



# SHARED SERVICES

## FINANCE



**David Sink**  
CHIEF FINANCIAL OFFICER

### Investments

Net operating losses over the past year have continued to necessitate 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 \$770 million to about \$702 million over the twelve months ending June 30, 2016. As of that date, the market value of the account was \$733 million, reflecting a net unrealized gain of about \$31 million. The portfolio returned about 4.59% over the twelve months ending June 30, 2016, despite the low interest rate environment that continues in the fixed-income market. The return of 4.59% outperformed the benchmark by 36 basis points over that past twelve months, and no "other than temporary impairment" of investments was recorded during the report year. The chart to the right 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 \$126.7 million for the fiscal year to date as of June 30, 2016. As of that date, the members' equity stood at -\$196.5 million and consists of -\$154.8 million private passenger business and -\$41.7 million other than private passenger.

The Facility's administrative expenses totaled \$6.2 million during calendar year 2015, which represented a decrease of 5% from the prior year and approximately 95% 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 2016. Overall, the administrative expenses have remained relatively stable and consistent over the past few years and are projected to be within budget once again for 2016.

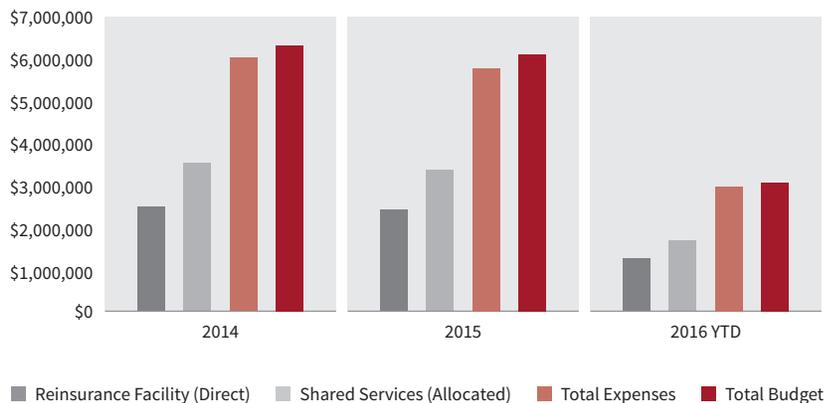
### Audit

As previously reported, the Facility engaged the firm of Johnson Lambert to audit the financial statements beginning with the year ending September 30, 2015. The inaugural audit by the firm went well, and they presented their report to the Facility's Audit Committee in February 2016. Johnson Lambert issued a clean opinion on the Facility's audited financial statements and conducted the required communications to the Committee, noting 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	2014	2015	Thru June 2016
Reinsurance Facility (Direct)	\$ 2,680,383	\$ 2,605,166	\$ 1,367,547
Shared Services (Allocated)	3,794,489	3,607,415	1,811,776
<b>Total Expenses</b>	<b>\$ 6,474,872</b>	<b>\$ 6,212,581</b>	<b>\$ 3,179,323</b>
<b>Total Budget</b>	<b>\$ 6,792,093</b>	<b>\$ 6,560,842</b>	<b>\$ 3,278,801</b>

## 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 our organizations streamline operations while continuing to expand the focus on the security of the data and systems that are at the core. The North Carolina Reinsurance Facility, like all companies, continues to increase focus on strengthening the external perimeter to the data while ensuring that all assets are safe inside. After many years of working on external security from multiple

angles, in 2016 we turned some of our attention internally to ensure that our associates were educated about how to keep our organizations safe by not letting the bad guys into the network, as well as how to handle sensitive data inside and outside of the organization. The Facility updated our security policies on how our electronic assets can be used and protected and also implemented a suite of interactive training modules and awareness materials to help associates understand security threats and implement best practices. The benefits of a security education and awareness-training program include reduced malware infections, reduced successful phishing attacks, increased reporting of incidents by associates and an overall improved security posture. We also implemented and educated users on the use of encrypted email when transmitting sensitive data to recipients outside our organization.

Additional security improvements focused around another top security priority for 2016, improving our patch management program. We continued to focus our attention on patching and updating all off-the-shelf software in our inventory as a defense against the rise of widespread malicious code targeting known vulnerabilities on unpatched software and systems.

Our efforts to continually improve the EDGE system to be more effective and efficient for all users this year included re-engineering EDGE to allow for clean risk and loss recoupments to be reported on a combined basis.

Information Technology continues to look into the future to best utilize new technologies that enable efficiencies while focusing on the importance of securing the large volumes of data that are entrusted to us.

## HUMAN RESOURCES



*Vicki Godbold*

CHIEF HUMAN RESOURCES  
OFFICER

Our Human Resources is the strategic and comprehensive approach committed to our Organization's most valued assets—our people. Facility Services provide a secure and comfortable work environment along with mail services and receptionist services. One large initiative in HR the past year has been implementing Performance Evaluations based on each associate's job description. This is effective for 2016. In Facility Services, we upgraded our security through new software and two indoor cameras earlier this year.

Our Wellness Program consists of:

- WeightWatchers at work
- 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 wellness lunch-n-learns by EXOS staff. Classes on personal shopping savings were also offered.

Community Service involvement by our associates this year included the SPCA, the United Way and the NC Food Bank.

## NCRF MANAGEMENT STAFF



*Tim Lucas*

MANAGER, AUTOMOBILE



*Mike Newton*

MANAGER, CLAIMS



*Jannet Barnes*

MANAGER, COMPLIANCE

# NORTH CAROLINA REINSURANCE FACILITY

## Balance Sheet

As of	June 30, 2016	June 30, 2015
<b>Assets</b>		
Cash (Checking Account)	\$ 6,167,735	\$ 8,670,696
Cash Restricted (Including Escrow)	-	-
Investments	702,167,090	770,181,765
Accounts Receivable	10,983,633	13,661,269
Accrued Interest Receivable	4,278,740	4,646,825
Other Assets	92	92
<b>Total Assets</b>	<b>\$ 723,597,290</b>	<b>\$ 797,160,647</b>
<b>Liabilities &amp; Members' Equity</b>		
Accounts Payable	\$ 46,848,802	\$ 30,069,384
Loss Reserves	576,504,395	523,471,320
Unearned Premium Reserves	296,484,954	277,714,076
Provision for Premium Refunds	-	-
Other Liabilities	299,422	811,834
<b>Total Liabilities</b>	<b>\$ 920,137,573</b>	<b>\$ 832,066,614</b>
Members' Equity	(196,540,283)	(34,905,967)
<b>Total Liabilities &amp; Members' Equity</b>	<b>\$ 723,597,290</b>	<b>\$ 797,160,647</b>

## Income Statement

Fiscal Year through	June 30, 2016	June 30, 2015
<b>Income</b>		
Earned Premiums	\$ 701,458,876	\$ 661,064,701
Clean Risk Recoupment	101,542,311	116,673,133
Investment Income	17,681,379	19,070,674
Membership Fee Income	54,200	53,800
Other Income	86,120	44,880
<b>Total Income</b>	<b>\$ 820,822,886</b>	<b>\$ 796,907,188</b>
<b>Expenses</b>		
Losses Incurred	\$ 681,054,381	\$ 585,201,763
Ceding & Claims Expenses	262,001,931	256,286,982
Premiums Escrowed	-	-
Other Underwriting Deductions	(299,168)	201,875
Salaries & Administration Expenses	1,744,059	1,716,116
Outside Services Expenses	1,628,761	1,787,753
Other Operating Expenses	1,367,085	1,317,271
<b>Total Expenses</b>	<b>\$ 947,497,049</b>	<b>\$ 846,511,760</b>
<b>Net Income / (Loss) Before Loss Recoupments</b>	<b>\$ (126,674,163)</b>	<b>\$ (49,604,572)</b>
<b>Loss Recoupments</b>	<b>(664)</b>	<b>587</b>
<b>Net Income / (Loss) After Loss Recoupments</b>	<b>\$ (126,674,827)</b>	<b>\$ (49,603,985)</b>

# NORTH CAROLINA REINSURANCE FACILITY

## Special Purpose Balance Sheet

Year Ending	Sept 30, 2015	Sept 30, 2014
<b>Assets</b>		
Cash and Short-Term Investments	\$ 64,372,002	\$ 19,402,063
Investments, at Amortized Cost	697,811,303	760,015,968
Accrued Interest Receivable	4,630,252	4,537,952
Settlements Receivable From Member Companies:	17,176,167	19,376,991
<b>Total Assets</b>	<b>\$ 783,989,724</b>	<b>\$ 803,332,974</b>
<b>Liabilities &amp; Members' Equity</b>		
Loss and Loss Adjustment Expense Reserves		
• In Course of Settlement	\$ 424,562,662	\$ 395,102,656
• Incurred But Not Reported	116,822,367	109,536,163
<b>Total Loss and Loss Adjustment Expense Reserves</b>	<b>541,385,029</b>	<b>504,638,819</b>
Unearned Premium Reserves	290,883,240	265,432,835
Advance Clean Risk Subsidies	2,073,809	2,965,916
Premium deficiency reserve	299,168	-
Settlements Payable to Member Companies	20,858,188	18,278,399
Other Liabilities	429,554	284,903
<b>Total Liabilities</b>	<b>855,928,988</b>	<b>791,600,872</b>
Members' Equity	(71,939,264)	11,732,102
<b>Total Liabilities and Members' Equity</b>	<b>\$ 783,989,724</b>	<b>\$ 803,332,974</b>

## Special Purpose Statement of Operations

Year Ending	Sept 30, 2015	Sept 30, 2014
Premiums Earned	\$ 889,880,145	\$ 845,732,308
Clean Risk Subsidies	159,320,049	111,256,490
<b>Total Underwriting Income</b>	<b>1,049,200,194</b>	<b>956,988,798</b>
Losses Incurred	802,600,646	702,054,308
Ceding Expense Allowances	238,959,101	217,979,401
Claims Expense Allowances	109,295,610	99,539,773
Change in premium deficiency reserve	299,168	-
<b>Total Underwriting Expenses</b>	<b>1,151,154,525</b>	<b>1,019,573,482</b>
<b>Net Underwriting Loss</b>	<b>(101,954,331)</b>	<b>(62,584,684)</b>
<b>Other Income (Expense)</b>		
Net Investment Income	20,296,014	22,573,517
Net Realized Investment Gains	3,131,336	5,349,937
Late Premium Charges and Penalties	73,616	140,609
Membership Fees	53,800	54,900
General and Administrative Expense	(5,272,382)	(5,535,657)
Other Miscellaneous Income	-	4,802
<b>Total Other Income – Net</b>	<b>18,282,384</b>	<b>22,588,108</b>
<b>Net Operating Loss</b>	<b>\$ (83,671,947)</b>	<b>\$ (39,996,576)</b>

# NCRF

NORTH CAROLINA  
**REINSURANCE FACILITY**

2910 SUMNER BLVD. RALEIGH, NC 27616 [WWW.NCRB.ORG/NCRF](http://WWW.NCRB.ORG/NCRF)

