



*Committed
to
Excellence*

**North Carolina
Rate Bureau**

2006 ANNUAL REPORT

North Carolina Rate Bureau

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General Organizational Information

<i>NCRB Main Phone Number</i>	919-783-9790
<i>Website Address</i>	www.ncrb.org
<i>Physical Address</i>	5401 Six Forks Road Raleigh, NC 27609

Management Contacts

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<i>Sue Taylor</i>	<i>Director, Workers Compensation</i>	919-582-1050.....	smt@ncrb.org
<i>Tim Lucas</i>	<i>Manager, Personal Lines</i>	919-582-1021.....	ftl@ncrb.org
<i>David Sink</i>	<i>Director, Finance & Administration</i>	919-582-1012.....	des@ncrb.org
<i>Vicki Godbold</i>	<i>Director, Human Resources</i>	919-645-3170.....	vcg@ncrb.org
<i>Jim Auman</i>	<i>Director, Information Technology</i>	919-582-1032.....	jra@ncrb.org

Annual Meeting

The Annual Meeting for member companies of the North Carolina Rate Bureau will be held October 24, 2006 at the Grandover Resort and Conference Center, Greensboro, North Carolina.



Message from the Chairman

Over the past year, I have had the honor and privilege of serving as the chairperson of the NC Rate Bureau Governing Committee. It has been a very challenging, interesting and rewarding experience.

I sincerely appreciate all of the support and counsel by Ray Evans, the General Manager, and his staff. Their passion and dedication is encouraging all NC Rate Bureau employees and employees in the affiliated organizations to do their best and to do the right thing. Their Commitment to Excellence has been demonstrated throughout the past year and has been critical to our success and progress. Thanks to Ray's leadership, the NC Rate Bureau and affiliated organizations continue to make proactive progress on a variety of fronts that include staff development, employee training, passion for doing the right thing, and increasingly using technology to benefit member companies. I also want to take this opportunity to thank all NC Rate Bureau employees for their efforts on our behalf.

In addition, I want to thank all of the Governing Committee members and the chairpersons of the various Subcommittees, for their participation, counsel and leadership. I also want to thank all of the Subcommittee members as well for their efforts on behalf of the industry.

This year, we successfully reached compromise settlements in Workers Compensation and in the 2005 and 2006 Private Passenger Auto filings with the Department of Insurance. In addition, we were able to eventually resolve the "deviation problem" with the Department. I also want to personally thank all of the negotiating team members and staff and counsel for all their hard work and dedication. All of the settlements required a lot of time, effort, and creativity and also brought a lot of frustration to all involved.

Furthermore, I want to thank Roger Batdorff, the previous chairperson for his support and guidance as well as Bob Blystone, the chairperson of the NC Reinsurance Facility for his participation on several critical issues. In addition, as always the advice and counsel from Mike Strickland and Mickey Spivey has been especially helpful to me and the Governing Committee.

Thanks for your participation and support.

Sincerely,
Art Lyon
Chairman

“The Key to Effective Leadership is the Relationship You Build With Your Team”

Ken Blanchard Marc Muchnick



Governing Committee

The Constitution of the Rate Bureau details that there are fourteen members of the Governing Committee. Of the members six shall be non-stock members of the Rate Bureau, six shall be stock members and two are non-voting members appointed by the Governor.

Members of the Governing Committee are elected at the annual meeting. The term is for three years, although members can be elected for a second consecutive term. Terms are staggered so that two stock and two non-stock members are elected each year.

Constitutional Committees

The Constitutional Committees are an integral part of the Bureau fulfilling its statutory requirements.

In general each committee has authority for these matters:

1. The making and the filing with the Commissioner of classifications, rules, rates, rating plans, policy forms and policy provisions;
2. The development and adoption of statistical plans and procedures for the collection of loss and expense experience;

MEMBER	REPRESENTATIVE
American Home Insurance Co	Ira Feuerlicht
Cincinnati Insurance Co	Jim Gron
Erie Insurance Exchange	Ronnie Chamberlain
Hartford Fire Insurance Co	Todd Martensen
Integon Indemnity Corporation	Art Lyon *
Liberty Mutual Insurance Co.	Cheryl Watts
Nationwide Mutual Insurance Co	Amy Powell
NC Farm Bureau Mutual Insurance Co.	Roger Batdorff
Progressive Casualty Insurance Co	Patricia D'Ambrosia
State Automobile Mutual Insurance Co.	Wes Florence
Travelers Indemnity Co	Benjy Seagle
United Services Automobile Association	Joe Schmucker
NON-VOTING MEMBERS	
Governor of North Carolina	Max Offerman
Governor of North Carolina.	John Wei * Chair

3. The collection, compilation, and analysis of such statistical and other data relating to the line of insurance as are deemed necessary or desirable;
4. The administration of such rating systems as may become effective pursuant to law;
5. The furnishing upon request of pertinent information relating to classifications, rules, rates, rating plans, policy forms and policy provisions to Members affected thereby;
6. The coordination and cooperation with rating organizations, advisory organizations, insurers and other insurance organizations in the development, application, or implementation of classifications, rules, rates, rating plans, policy forms and policy provisions;
7. The taking of any other action deemed necessary or appropriate for the efficient and effective administration and regulation of the line of insurance by the Bureau.

A typical change works like this. The Bureau's staff along with any necessary work from independent experts or statistical organizations prepares the initial detail and establishes the "frame work" for the change.

The Committee reviews this initial work and adds additional viewpoints, perhaps requests additional details or suggests alternative actions. After alternatives are explored and whatever additional required input is obtained the Committee votes on a final version with instructions to staff to file appropriately.

At the beginning of the period covered by this report there were 643 companies. Of these 598 were members for automobile insurance, 584 were members for residential property insurance and 479 were members for workers compensation insurance.

As of August 31, 2006 there were 645 member companies, 599 for automobile insurance, 584 for residential property insurance and 467 for workers compensation insurance.

Task Force on Rating Methodology

MEMBER	REPRESENTATIVE
Allstate Insurance Co	Steven D. Armstrong *
Allstate Insurance Co	Shantelle Thomas
Integon Indemnity Corporation	Art Lyon
NC Farm Bureau Mutual Insurance Co.	Roger N. Batdorff
Nationwide Mutual Ins. Co.	Todd Davis
State Farm Mutual Automobile Insurance Co.	Kathy Popejoy
United Services Automobile Association	Lisa Sukow * Chair

Automobile Committee

MEMBER	REPRESENTATIVE
Allstate Insurance Co	Steven D. Armstrong *
GEICO Indemnity Company	Tom McNicholas
Hartford Fire Insurance Co	Jamie Mathews
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Co.	John Ittner
Lumbermens Mutual Casualty Co	Amy Brown
Nationwide Mutual Ins. Co	Todd Davis
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Progressive Casualty Insurance Co	Patricia D'Ambrosia
State Farm Mutual Automobile Insurance Co	Kathy Popejoy
The Travelers	Michael Fitzgerald
United Services Automobile Association	Lisa Sukow * Chair

Personal Auto Policy Subcommittee

MEMBER	REPRESENTATIVE
Allstate Insurance Company	Christy Hradek *
Nationwide Mutual Ins. Co	Doreen H. Vaughan
State Farm Mutual Automobile Ins Co	Kevin J. Nicklas
Young, Moore & Henderson	R. Michael Strickland * Chair

Subcommittee on Classification & Subclassification Plans

MEMBER	REPRESENTATIVE
Allstate Insurance Co	Steven D. Armstrong
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Co.	John Ittner
NC Farm Bureau Mutual Insurance Co.	Roger N. Batdorff
Nationwide Mutual Insurance Co	Daniel Myers
Progressive Casualty Insurance Co	Patricia D'Ambrosia
State Farm Mutual Automobile Ins. Co	Kathy Popejoy* *Chair

Property Committee

MEMBER	REPRESENTATIVE
Allstate Insurance Co	Shantelle Thomas
Amica Insurance	Tom Goodale
The Erie Insurance Group	Ronnie Chamberlain
Kemper National Insurance Companies	Amy Brown
NC Farm Bureau Mutual Ins. Co.	Bob Tart
Nationwide Mutual Ins. Co	Todd Davis
Penn National Insurance Companies	Chuck Uckele
State Farm Fire & Casualty Co.	Bob Messier *
Travelers Property & Casualty Company	Randy Krauss
USAA.	Joe Schmucker * Chair

Property Forms Subcommittee

COMMITTEE MEMBER INSURERS	REPRESENTATIVE
Allstate Insurance Co	Bob Lorch
American Bankers Insurance Co of Florida.	Dina Olsen
Foremost Insurance Co	David J. Kelly
Kemper Auto and Home	Susan Fiorentino
Modern Insurance Group	Kevin Randall
NC Farm Bureau Mutual Ins. Co.	Bob Tart
Nationwide Mutual Fire Ins Co	Doreen H. Vaughan *
Nationwide Mutual Insurance Co	Richard C. Jenkins
	* Chair

Property Rating Subcommittee

COMMITTEE MEMBER INSURERS	REPRESENTATIVE
Allstate Insurance Co	Shantelle Thomas *
American Modern Insurance Group	Mark E. Carroll
Foremost Insurance Company	David J. Kelly
NC Farm Bureau Mutual Insurance Co.	Roger N. Batdorff
Nationwide Mutual Ins. Co	Todd Davis
State Farm Fire & Casualty Co.	Susan Cleaver
Travelers Property & Casualty Co	Randy Krauss
United Services Automobile Association.	Christopher C. Swetonic
	* Chair

Task Force on Hurricane Mitigation

COMMITTEE MEMBER INSURERS	REPRESENTATIVE
Allstate Insurance Co	Shantelle Thomas
State Farm Fire & Casualty Co.	Susan Cleaver *
Travelers Property & Casualty Co	Randy Krauss
Travelers Property & Casualty Co	Rebecca Raynor
United Services Automobile Association	Christopher C. Swetonic
	* Chair

Workers Compensation Committee

COMMITTEE MEMBER INSURERS	REPRESENTATIVE
American Home Assurance Co.	Mary L. McQueen
Builders Mutual Insurance Co	Jerry Visintine
Harleysville Mutual Insurance Co	Robert Johnson
Hartford Accident & Indemnity Co	Giggy Martindale
Key Risk Insurance Co	John Godfrey
Liberty Mutual Insurance Co.	Cheryl B. Watts *
Maryland Casualty Co (Zurich).	Paul Ziegler
NC Farm Bureau Mutual Insurance Co.	Roger N. Batdorff
Ohio Casualty Insurance Co	Ray Hinnant
PA National Mutual Casualty Insurance Co	Alan Stowe
St. Paul/Travelers Insurance Co	Jeffrey W. Schmidt
	* Chair



General Manager's Report

The year that has elapsed since the last annual report has been a good one for the Rate Bureau. Most notably, the Bureau probably, and probably only because we haven't kept real good data on this in the past, set an all time one year record for the number of filings made and approved or settled. Especially important were settling the 2005 and 2006 PPA filings and the 2005 WC filing.

In addition to the rate filings, there were a significant number of approved filings relating to forms and rules. We were also pleased to participate in helping resolve the "deviation filings problem." While the "marquee" rate filings get much of the attention there are many additional filings each year which enable our members to operate effectively and the industry to respond to a changing environment.

In addition to filings, the Bureau has been successful in remaining within budget and at the same time improving the quality of our work, both important parts of

our commitment to excellence. Electronic applications continue to be the key to more effective operations and we now receive about 30% of workers compensation assigned risks through our web site. In addition, almost 70% of the 120,000 or so workers compensation policy dec pages we receive are now electronic.

Another record for the past year, we think, although this is also a little fuzzy, is the number of committee meetings. A sincere tip of our hat to all committee members for your enthusiastic and thoughtful participation in meetings, many of which were called at very short notice and unusual times. No matter what the subject or urgency, because you were available, the Bureau was able to respond.

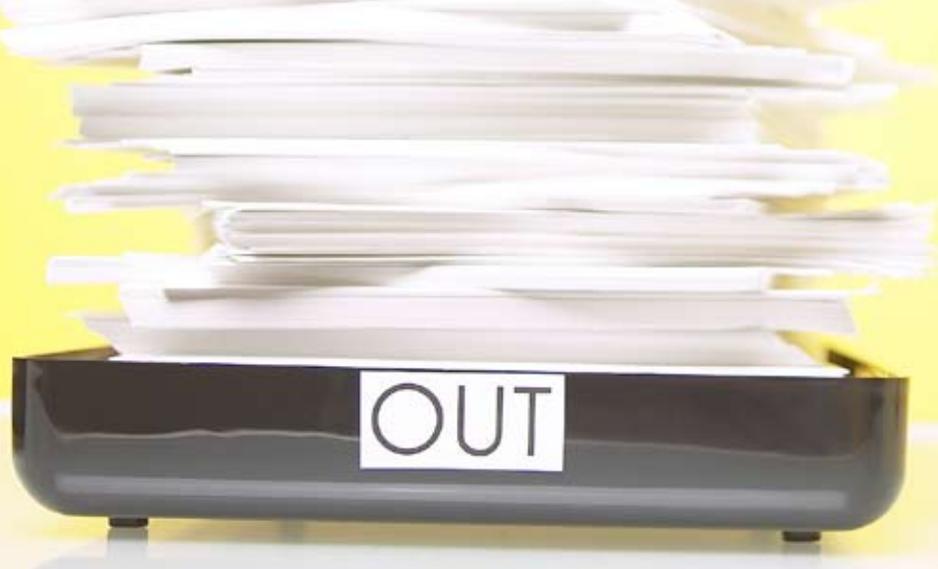
Last year was a year of success and progress. The associates of the Bureau continue to be dedicated to making certain member carriers receive the greatest possible value from our work.



Raymond F. Evans, Jr., CPCU
General Manager

Raymond F. Evans, Jr., CPCU
General Manager





Personal Lines



F. Timothy Lucas
Manager, Personal Lines

The Personal Lines department continues to be committed to providing excellent service to all of our customers including insurance companies, agents and insureds. This service is sometimes visible, but many times takes place behind the scenes. The main focus of Personal Lines is the filing of rates and forms, data collection, and Safe Driver Insurance Plan hearings for insureds that want to appeal the point assignment of an at-fault accident.

The Bureau continues to strive to make North Carolina a good place for insurance. This past year saw us involved in two contentious issues that demonstrate

our commitment to this responsibility. One was a problem with deviation filings where individual member companies had filings disapproved as a result of a change in interpretation and applying statutory language. We were able, along with a number of other interested parties, to facilitate a solution after several months of intense discussion and negotiation. The Bureau was the ultimate vehicle for a successful conclusion, but sincere thanks to Art Lyon and the insurance industry lobbyists for a great team effort.

During the past year two major auto rate filings were approved for use by member companies. After a lengthy hearing the 2005 Private Passenger Auto rate filing was settled with an overall decrease of 2.5% but with an increase of 5.1% for liability coverages. While the change was not the 9.6% originally filed, there was significant rate relief for the most inadequately priced areas. The 2006 Private Passenger Auto rate filing was settled with an overall decrease of 2.9% with an increase of 4.0% in liability rates. Here again, prior to this filing, the liability rates were the most inadequate. The settlement also included a decrease in motorcycle liability rates of 6.5% and revisions to the classification and subclassification plans.

The Bureau implemented changes to the Personal Automobile Policy Program which became effective with policies effective on or after May 1, 2006. The changes to the

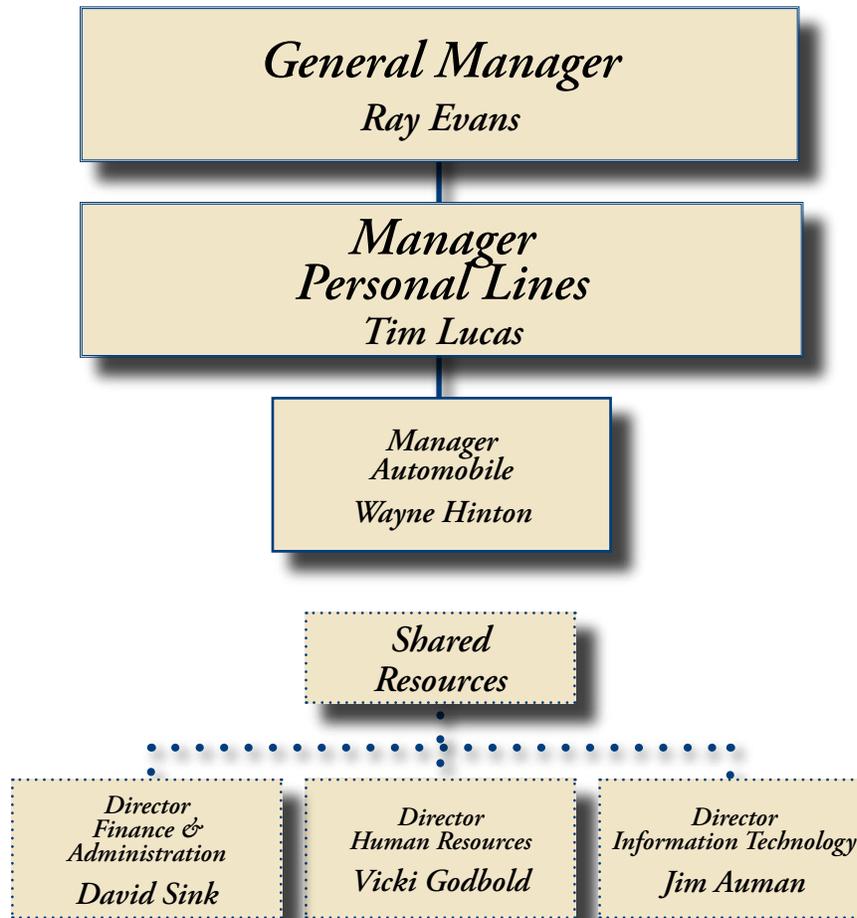
Policy were primarily to the physical damage coverages related to electronic equipment and customized equipment. Changes were also made to the Loss Payee Provision.

Over the past couple of years, there has been a lot of discussion regarding the application of the inexperienced operator surcharge. The Bureau filed and received approval for a new inexperienced operator manual rule. The new rule eliminates the presumption that someone is inexperienced until documentation is received and allows companies to rate the risk as experienced until a Motor Vehicle Record is received. In addition, only driving experience incurred in the United States, Canada and Puerto Rico will count towards the three years driving experience. This new rule became effective with policies issued on or after October 1, 2006 and to all new drivers added after that date.

Also effective October 1, 2006 were new motorcycle relativities. In the past there have been only two categories of motorcycles based on the cubic centimeters (cc's) of the engine. This has been expanded to four categories of cc's with a new factor for medical payments coverage.

On the property insurance side of the Personal Lines Department, we made a Dwelling rate filing on March 31, 2006 requesting an overall increase of 32.9% which was split between an increase in fire rates of 8.3% and an increase in extended coverage rates of 46.2%. The territory revisions for

Personal Lines Organizational Chart



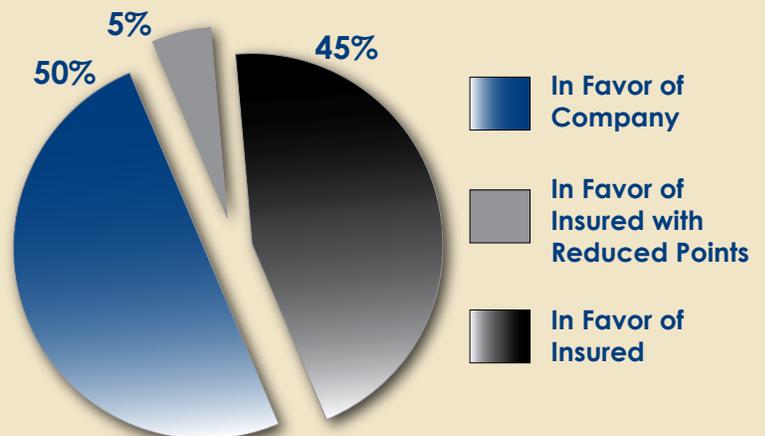
extended coverage for buildings ranged from an increase of 55.8% in territories 5 and 6 to an increase of 0.9% in territory 57. On May 17, 2006, the Bureau and Department entered into a Settlement Agreement and Consent Order. It was agreed to implement an overall increase of 12.1% with territory revisions for extended coverage for buildings ranging from an increase of 25.0% for territories 5 and 6 to no change in seven territories.

The Personal Lines department also has the responsibility of collecting Annual Statements, Expense Experience and Installment Payment Charges from all of the member companies. This data is used in rate filings and for the annual Bureau assessments for each of the organizations as well as the ceding and claims expense allowance for the Reinsurance Facility.

The staff of Personal Lines department consisting of five associates accomplished a significant amount of work in 2006 and continues to be committed to excellence in servicing the Bureau customers.

F. Timothy Lucas
F. Timothy Lucas
 Manager, Personal Lines

The Bureau provides a valuable service to the automobile policyholders across the state by providing a mechanism by which they can appeal the Safe Driver Insurance Plan “points” that were assigned as a result of an “at-fault” accident. If an insured has been assigned “points” for an accident they feel are not warranted then they can appeal to the Bureau for a hearing. This year, 250 insureds wrote or called the Bureau regarding the “points” that were assigned to their policy. As a result, 40 hearings were conducted with the results as follows:





Workers Compensation



Susan M. Taylor
Director, Workers Compensation

The Commitment to Excellence has been emphasized this year in the Workers Compensation Department in two areas, data quality and information technology. Although data quality is the main thrust of the department, this effort has been assisted with

Most of the unit statistical data has been received from the carriers electronically for several years now either through the National Council on Compensation Insurance or submitted directly to the Bureau. Within the last three years carriers have made great strides in increasing the amount of policy data that is sent to the Bureau electronically. This effort has streamlined the data entry function of the Bureau and has contributed to improved efficiencies in the department.

the increase and improvement of electronic means to collect the data. Significant strides have taken place in the electronic collection of both policy and unit statistical data.

ManageAR, which was developed by the North Carolina Rate Bureau (Bureau), was introduced in January 2006. This web-based system allows agents to submit assigned risk applications and payments to the Bureau electronically. ManageAR provides a variety of on-line tools such as EZ Quote, Experience Modification Lookup and Class Code Lookup to assist in the completion of the application. The system provides on-line edits to the agents and eliminates the mailing delays for applications. It also provides the ability to store and maintain historic applications for reference.

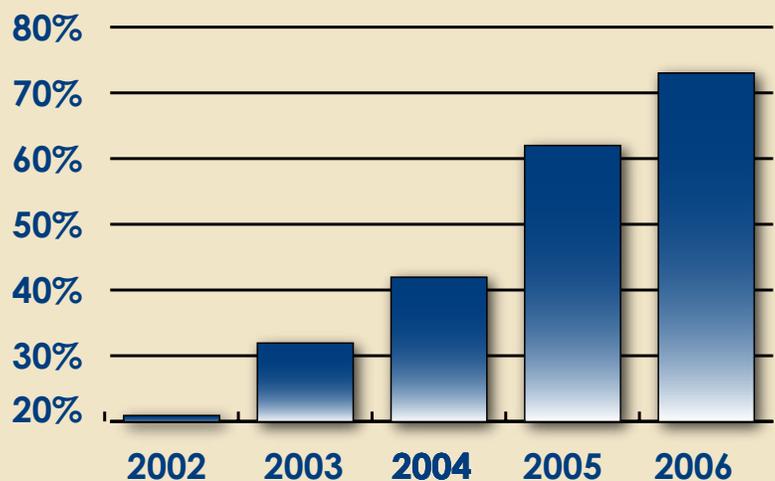
In the short period of time that ManageAR has been in existence the time from receipt of an application to the assignment of that application to a carrier has improved 23%. Through August, twenty-eight percent of all

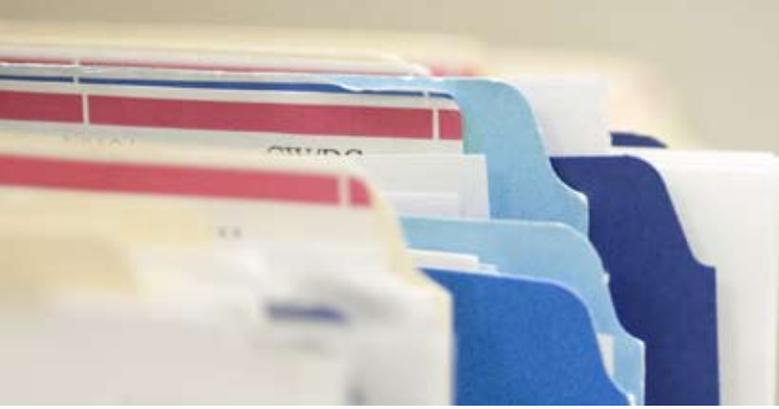
applications are being submitted to the Bureau electronically through the new system. Efforts are underway to continue to increase the agent utilization of the system.

ManageUSR was completed in May and is a user-friendly on-line tool that provides carriers with the ability to search, view and print unit statistical information for their carrier group. ManageUSR will assist carriers in the management of their unit statistical data and can be used to search for unit statistical data in the Bureau database.

Total written premium for workers compensation in North Carolina for 2005 was \$1.3 billion which was an increase of 10.7% over 2004. North Carolina continues to be one of the ten largest states in direct premiums.

The Bureau is the Plan Administrator for the North Carolina Workers Compensation Assigned Risk Program. The residual market mechanism assigns the “difficult to place” employers to insurance carriers for policy





issuance when they are unable to procure a policy in the standard market. This market is serviced by two types of carriers, direct assignment carriers and servicing carriers. The following four carriers are the Servicing Carriers in North Carolina with terms from January 1, 2005 to December 31, 2007:

- Companion Property and Casualty Insurance Company
- Key Risk Insurance Company
- LM Insurance Corporation
- Travelers Indemnity Company

The following carriers are Direct Assignment Carriers with terms ending December 31, 2006:

- American Interstate Insurance Company
- American Zurich Insurance Company
- Cincinnati Insurance Company
- Continental Casualty Company
- Granite State Insurance Company
- Hartford Underwriters Insurance Company

The residual market in North Carolina is ten percent of the total workers compensation market in the state. At the conclusion of 2005, 34,287 assigned risk policies comprised a total premium of \$95,269,361.

The Take-Out Credit Program was designed to encourage insurers to depopulate the residual market. The program provides credit against the insurer's calendar year voluntary premium which is used as the basis for apportionment of the results of the residual market. For the credits processed in 2006 for the 2005 calendar year, 190 policies were taken out of the residual market with a total premium of \$1.5 million and a 28 percent increase over the prior year.

In January the Workers Compensation Department appointed a Dispute Resolution Specialist to track and resolve all disputes that have been filed with the Bureau. For the first half of the year, 114 dispute inquiries have been submitted with seventy-five percent falling into the class code or audit categories. More than half of these inquiries have been

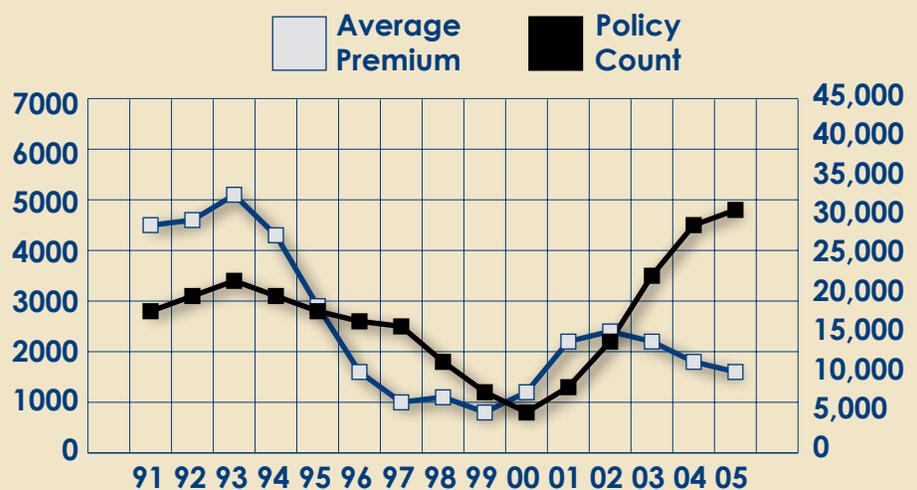
resolved prior to reaching the dispute status.

The Information Center located in Workers Compensation was established in 2005 and is the first point of contact for all calls and e-mails that come into the department. The center answers agent, carrier and insured workers compensation questions as well as web security inquiries for the entire organization. In an average month, this department answers 5,000 phone calls and 600 e-mail requests. The Answer Service Factor which is a standard measurement for call centers has averaged over 99 percent for the last three months.

Through the first 8 months of 2006 several filings have been submitted to the Department of Insurance, approved for use and communicated via previous circular:

- Foreign Terrorism endorsement effective January 1, 2006
- Effective April 1, 2006 a Settlement Agreement and Consent Order was approved adjusting the loss costs 9.4%

Comparing those states that are members of the Reinsurance Pool administered by the National Council on Compensation Insurance, Inc. (NCCI), North Carolina has the second highest policy count and the third highest premium count. Average premium has continued to decrease to a 2005 year-end level of \$2,779. Twenty-two percent of the policies have premium less than \$2,500. The net operating loss has been increasing in North Carolina with year end 2005 at -\$25 million.





- Effective April 1, 2006 a Settlement Agreement and Consent Order was approved adjusting the residual market rates 8.7%
- Rural Electrification Administration Endorsement was effective April 1, 2006
- Waiver of Our Right to Recover From Others premium charge was effective September 1, 2006
- A revision to the premium eligibility guidelines for experience rating effective January 1, 2007
- Various classification changes

North Carolina is a member of Spectrum Partners, LLC along with 4 other rating bureaus (Massachusetts, Minnesota, New York, and Wisconsin). The Spectrum partnership pools resources in the development of a workers compensation database that is utilized for the collection and processing of data. In 2006 an effort was begun to upgrade the Spectrum system over a five-year period of time.

As data quality remains the focus of Workers Compensation, the Bureau continues to conduct forums to ensure that this happens. During the past year meetings have been held with carriers to discuss data reporting and assigned risk issues. Special thanks to the members of the Workers Compensation Committee for all of their input. The Workers Compensation Department of the North Carolina Rate Bureau continues to be committed to excellence!

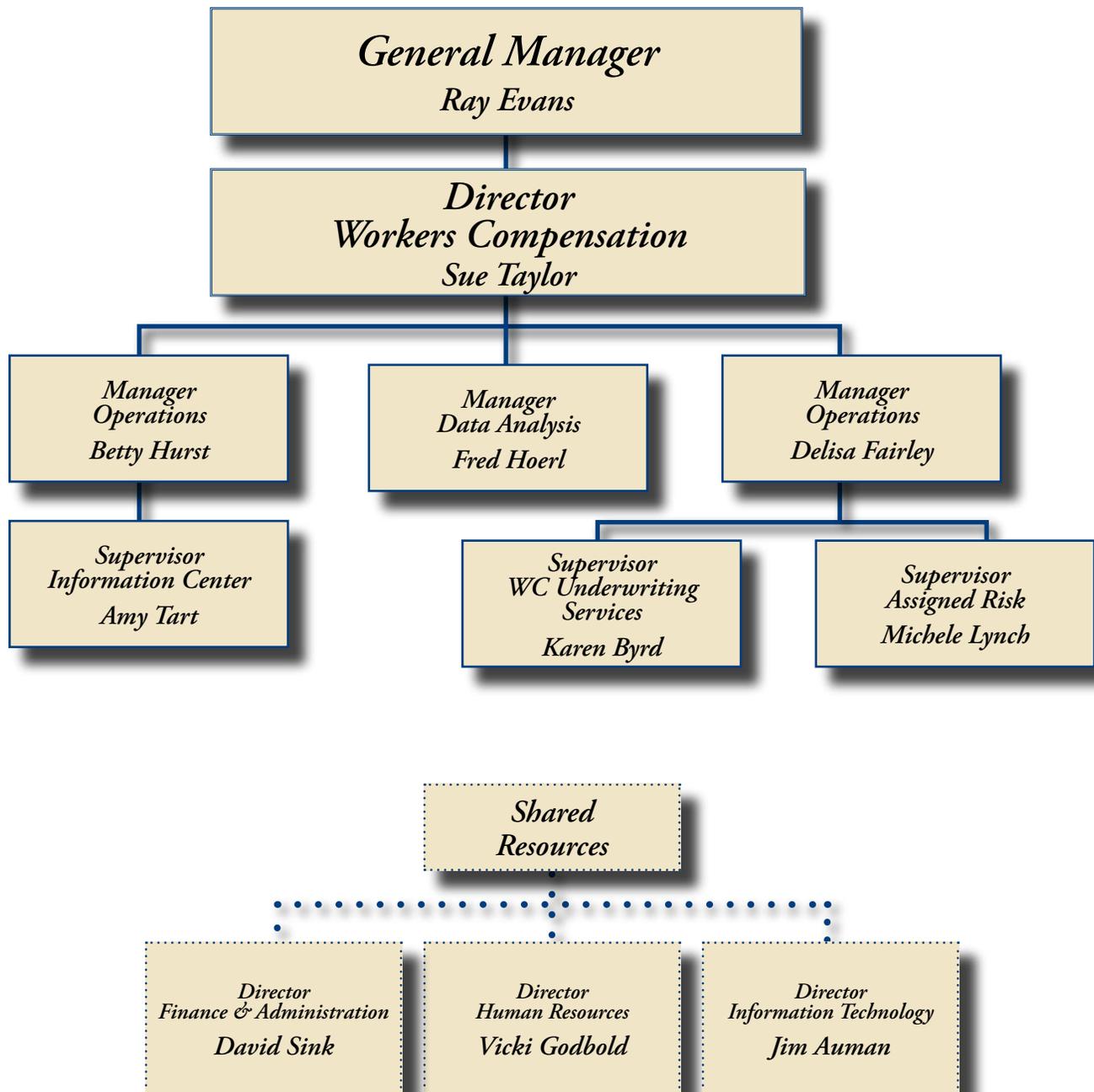
Susan M. Taylor

Susan M. Taylor
Director, Workers Compensation





Workers Compensation Organizational Chart



North Carolina Rate Bureau

BALANCE SHEET

Assets	August 31, 2005	August 31, 2006
Cash (Checking Account)	\$1,958,715	\$1,332,104
Restricted Cash & Investments	569,480	571,754
Assessments Receivable	203,643	466,619
Other Assets	13,718	204,665
Total Assets	\$2,745,556	\$2,575,142
Liabilities & Fund Equity		
Refund to Carriers Payable	\$50,098	\$50,098
Retiree Insurance Payable – Restricted	569,480	571,754
Other Liabilities	(1,183)	(2,752)
Total Liabilities	\$618,395	\$619,100
Fund Equity	\$2,127,161	\$1,956,042
Total Liabilities & Fund Equity	\$2,745,556	\$2,575,142

INCOME STATEMENT

Income	August 31, 2005	August 31, 2006
Assessments Income	\$10,344,767	\$10,619,970
Membership Fees Income	701,500	704,000
Other Income	29,316	321,235
Total Income	\$11,075,583	\$11,645,205
Expenses		
Salaries, Employee Relations & Taxes	\$3,516,171	\$3,773,533
Legal, Consulting & Other Outside Services	5,982,869	6,691,230
Other Operating Expenses	822,223	906,654
Total Expenses	\$10,321,263	\$11,371,417
Net Income	\$754,320	\$273,788

Shared Resources



David Sink
Director, Finance & Administration



Vicki Godbold
Director, Human Resources



Jim Auman
Director, Information Technology

NORTH CAROLINA RATE BUREAU
NORTH CAROLINA REINSURANCE FACILITY
NC INSURANCE GUARANTY ASSOCIATION



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