MINUTES OF THE TWENTY-FIFTH ANNUAL MEETING OF THE NORTH CAROLINA RATE BUREAU HELD AT THE GRANDOVER RESORT & CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA, OCTOBER 22, 2002

<table>
<thead>
<tr>
<th>MEMBERS PRESENT</th>
<th>REPRESENTED BY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allstate Insurance Company</td>
<td>Mr. A. Ivey</td>
</tr>
<tr>
<td>Allstate Indemnity Company</td>
<td>Mr. D. Border</td>
</tr>
<tr>
<td>Northbrook Indemnity Company</td>
<td>Ms. K. Olcese</td>
</tr>
<tr>
<td>Alpha Property &amp; Casualty Insurance Company</td>
<td>Mr. J. Tanaka</td>
</tr>
<tr>
<td>AmComp Assurance Corporation</td>
<td>Mr. D. Cox</td>
</tr>
<tr>
<td>Auto-Owners Insurance Company</td>
<td>Ms. M. Williams</td>
</tr>
<tr>
<td>Owners Insurance Company</td>
<td>Mr. T. Marshall</td>
</tr>
<tr>
<td>Government Employees Insurance Company</td>
<td>Mr. T. McNicholas</td>
</tr>
<tr>
<td>GEICO General Insurance Company</td>
<td>Mr. J. Thomas</td>
</tr>
<tr>
<td>GEICO Indemnity Company</td>
<td>Ms. A. Jones</td>
</tr>
<tr>
<td>Grain Dealers Mutual Insurance Company</td>
<td>Ms. R. Hunter</td>
</tr>
<tr>
<td>Great American Insurance Company</td>
<td>Mr. A. Lyon</td>
</tr>
<tr>
<td>Great American Alliance Company</td>
<td></td>
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<tr>
<td>Great American Assurance Company</td>
<td></td>
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<tr>
<td>Great American Contemporary Insurance Company</td>
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<tr>
<td>Great American Insurance Company of New York</td>
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<td>Great American Security Insurance Company</td>
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<tr>
<td>Great American Spirit Insurance Company</td>
<td></td>
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<tr>
<td>Worldwide Insurance Company</td>
<td></td>
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<tr>
<td>Integon Indemnity Corporation</td>
<td></td>
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<tr>
<td>GMAC Direct Insurance Company</td>
<td></td>
</tr>
<tr>
<td>GMAC Insurance Company Online, Inc.</td>
<td></td>
</tr>
<tr>
<td>Integon Casualty Insurance Company</td>
<td></td>
</tr>
<tr>
<td>Integon General Insurance Corporation</td>
<td></td>
</tr>
<tr>
<td>Integon National Insurance Company</td>
<td></td>
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<tr>
<td>Integon Preferred Insurance Company</td>
<td></td>
</tr>
<tr>
<td>Integon Specialty Insurance Company</td>
<td></td>
</tr>
<tr>
<td>New South Insurance Company</td>
<td></td>
</tr>
<tr>
<td>Key Risk Insurance Company</td>
<td>Mr. J. Godfrey</td>
</tr>
<tr>
<td>Liberty Mutual Insurance Company</td>
<td>Mr. R. Jones</td>
</tr>
<tr>
<td>First Liberty Insurance Corporation</td>
<td>Ms. C. Watts</td>
</tr>
<tr>
<td>Liberty Insurance Corporation</td>
<td></td>
</tr>
<tr>
<td>Liberty Mutual Fire Insurance Company</td>
<td></td>
</tr>
<tr>
<td>LM Insurance Corporation</td>
<td></td>
</tr>
<tr>
<td>Lumbermens Mutual Casualty Company</td>
<td>Mr. R. Snyder</td>
</tr>
<tr>
<td>American Manufacturers Mutual Insurance Company</td>
<td></td>
</tr>
<tr>
<td>American Motorists Insurance Company</td>
<td></td>
</tr>
<tr>
<td>American Protection Insurance Company</td>
<td></td>
</tr>
<tr>
<td>Kemper Casualty Insurance Company</td>
<td></td>
</tr>
<tr>
<td>Specialty National Insurance Company</td>
<td></td>
</tr>
<tr>
<td>Nationwide Mutual Insurance Company</td>
<td>Mr. D. Gettles</td>
</tr>
</tbody>
</table>
Nationwide Affinity Insurance Company
Nationwide Mutual Fire Insurance Company
Nationwide Property & Casualty Insurance Company

North Carolina Farm Bureau Mutual Insurance Company
Farm Bureau Insurance of North Carolina, Inc.
Mr. B. Pollard
Mr. R. Batdorff
Mr. S. Carroll

Pennsylvania National Mutual Casualty Insurance Company
Penn National Security Insurance Company
Ms. P. Lovell

Royal Insurance Company of America
American & Foreign Insurance Company
Connecticut Indemnity Company
Design Professionals Insurance Company
Employee Benefits Insurance Company
Fire & Casualty Insurance Company of Connecticut
Globe Indemnity Company
Grocers Insurance Company
Orion Insurance Company
Peak Property & Casualty Insurance Corporation
Phoenix Assurance Company of New York
Royal & SunAlliance Personal Insurance Company
Royal Indemnity Company
Safeguard Insurance Company
Sea Insurance Company of America
Security Insurance Company of Hartford
Mr. J. Dasti

St. Paul Fire & Marine Insurance Company
Athena Assurance Company
Discover Property & Casualty Insurance Company
Fidelity & Guaranty Insurance Underwriters
Fidelity & Guaranty Insurance Company
Northbrook Property & Casualty Insurance Company
St. Paul Guardian Insurance Company
St. Paul Medical Liability Insurance Company
St. Paul Mercury Insurance Company
United States Fidelity & Guaranty Company
Mr. S. Coon

Southern General Insurance Company
Southern Guaranty Insurance Company
Southern Fire & Casualty Company
Southern Pilot Insurance Company
Ms. T. Bozzano
Ms. E. Leming
Mr. S. Cone

State Automobile Mutual Insurance Company
State Automobile National Insurance Company
State Automobile Property & Casualty Insurance Company
Mr. W. Florence

State Farm Mutual Automobile Insurance Company
State Farm Fire & Casualty Company
State Farm General Insurance Company
Mr. T. Pemberton
Mr. A. Bentley
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 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 Insurance Company
Travelers Personal Security Insurance Company
Travelers Property Casualty Insurance Company

OTHERS PRESENT

Green & Wooten Insurance Agency
Mr. J. Wooten

Insurance Services Office
Mr. P. Woods

Miller, Herbers & Lehmann
Mr. M. Miller

Milliman USA
Dr. D. Appel

Young, Moore & Henderson, PA
Mr. M. Spivey
Mr. M. Strickland
Mr. B. Trott

Staff
Mr. R. Evans
Mr. J. Hamrick
Mr. W. Hinton
Mr. T. Lucas
Mr. D. Sink

243 other member companies were represented by proxy.

The meeting convened as scheduled, Mr. Marshall of Auto-Owners Insurance Company, Chairman of the Governing Committee, presiding.

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

1. **The Annual Report**

   Copies of the Twenty-Fifth Annual Report were distributed. Mr. Evans reviewed and commented on the Report, a copy of which is attached hereto.

   A motion that the Twenty-Fifth Annual Report be adopted was seconded and carried unanimously.

2. **Governing Committee Election**

   Mr. Ivey of Allstate Insurance Company, Chairman of the Nominating Committee which had previously been appointed by the Chairman of the Governing Committee, nominated Hartford Fire Insurance Company, North Carolina Farm Bureau Mutual Insurance Company, St. Paul Fire & Marine Insurance Company and State Farm Mutual Automobile Insurance Company to become members of the Governing Committee for three-year terms.

   There were no other nominations and a motion was made, seconded and unanimously carried that the nominated companies be elected to serve on the Governing Committee.

   Mr. Marshall thanked the representatives of Great American Insurance Company and State Automobile Mutual Insurance Company for their contributions as members of the Governing Committee during the past year.

3. **Chairman's Comments**
Mr. Marshall stated that through its vision, work ethic and integrity, the Rate Bureau continued to provide a quality service to the insurance industry and its many constituents.

Mr. Marshall recognized and thanked the Rate Bureau Staff, Counsel and Consultants for their efforts during the year. Mr. Marshall also expressed appreciation to the representatives of the member companies that serve on the Governing Committee and other Committees of the Rate Bureau.

4. **Adjournment**

   There being no further business the meeting was adjourned.

   Respectfully submitted,

   Ray F. Evans, Jr., CPCU

   General Manager

RFE:dg

Enclosure

G-02-3

11/20/02
This Report covers the activities of the North Carolina Rate Bureau during the period from September 1, 2001 through August 31, 2002.

**ORGANIZATION**

The North Carolina Rate Bureau was established effective September 1, 1977, as mandated by the North Carolina General Assembly with the passage of House Bill 658 which was ratified on June 30, 1977, and which was later codified as Article 36, Chapter 58, General Statutes of North Carolina.

**GOVERNING COMMITTEE**

The following member insurance companies, elected in accordance with the Constitution of the Rate Bureau, were serving on the Governing Committee as of August 31, 2002:

<table>
<thead>
<tr>
<th>Stock</th>
<th>Non-Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allstate Insurance Company</td>
<td>Auto-Owners Insurance Company</td>
</tr>
<tr>
<td>Great American Insurance Company</td>
<td>Harleysville Mutual Insurance Company</td>
</tr>
<tr>
<td>Integon General Insurance Company</td>
<td>Liberty Mutual Insurance Company</td>
</tr>
<tr>
<td>Royal Insurance Company of America</td>
<td>Nationwide Mutual Insurance Company</td>
</tr>
<tr>
<td>St. Paul Fire &amp; Marine Insurance Company</td>
<td>State Automobile Mutual Insurance Company</td>
</tr>
<tr>
<td>Travelers Indemnity Company</td>
<td>State Farm Mutual Automobile Insurance Company</td>
</tr>
</tbody>
</table>

Mr. Max Offerman of Cary, NC and Mr. John Wei, also of Cary, NC, served as non-voting public members of the Governing Committee during the period covered by this Report.

During the Twenty-Fourth Annual Meeting held October 23, 2001, Allstate Insurance Company, Auto-Owners Insurance Company, Integon General Insurance Corporation and Liberty Mutual Insurance Company were elected as members of the Governing Committee for three-year terms.

The Governing Committee met twelve times during the year, including nine telephone conferences. Auto-Owners Insurance Company served as Chairman of the Governing Committee during the year. State Farm Mutual Automobile Insurance Company served as Vice-Chairman.
MEMBERSHIP

Membership in the North Carolina Rate Bureau is required of all companies licensed in North Carolina to write any of the coverages subject to the jurisdiction of the Rate Bureau.

During the period covered by this Report there were twelve additions to the membership. These were the following companies:

- Alamance Insurance Company
- Alfa Mutual Insurance Company
- Bridgefield Casualty Insurance Company
- California Casualty Indemnity Exchange
- CNL/Insurance America, Inc.
- Continental Western Insurance Company
- GMAC Direct Insurance Company
- GMAC Insurance Company Online, Inc.
- Hartford Steam Boiler Inspection & Ins Co of CT
- Mid-Continent Casualty Company
- Planet Indemnity Company
- Safety First Insurance Company

The following companies withdrew from membership, became insolvent or merged with other companies during the year covered by this Report:

- American Continental Insurance Company
- American Horizon Insurance Company
- Aristar Insurance Company
- Fremont Compensation Insurance Co
- Fremont Pacific Insurance Company
- NN Insurance Company
- Phico Insurance Company
- Reliance Insurance Company
- Southern Heritage Insurance Company

As of August 31, 2002 there were 654 member companies - 614 licensed to write the automobile coverages, 601 licensed to write the residential property coverages and 491 licensed to write workers compensation insurance.
CONSTITUTIONAL COMMITTEES

The Constitution provides that the Governing Committee shall establish certain standing committees which shall have the authority, duties and functions as provided in Article IX of the Constitution and which shall have independent power to authorize actions of the Rate Bureau as delegated by the Governing Committee.

Following are the four standing committees which served during the year ended August 31, 2002:

**Automobile Committee**

- Allstate Insurance Company
- GEICO Indemnity Insurance Company
- Hartford Fire Insurance Company
- Integon General Insurance Corporation
- Liberty Mutual Insurance Company
- Lumbermens Mutual Casualty Company
- Nationwide Mutual Insurance Company
- NC Farm Bureau Mutual Insurance Company
- Progressive Casualty Insurance Company
- Royal Insurance Company of America
- State Farm Mutual Automobile Insurance Co
- Travelers Indemnity Company

**Property Committee**

- Allstate Insurance Company
- Lumbermens Mutual Casualty Company
- Nationwide Mutual Insurance Company
- NC Farm Bureau Mutual Insurance Company
- Pennsylvania National Mutual Casualty Ins Co
- Royal Insurance Company of America
- The Shelby Insurance Company
- State Farm Fire & Casualty Company
- United Services Automobile Assurance

**Workers Compensation Committee**

- Builders Mutual Insurance Company
- Harleysville Mutual Insurance Company
- Hartford Accident & Indemnity Company
- Liberty Mutual Insurance Company
- Maryland Casualty Company
- NC Farm Bureau Mutual Insurance Company
- Ohio Casualty Insurance Company
- Pennsylvania National Mutual Casualty Ins Co
- Royal Insurance Company of America
- St. Paul Fire and Marine Insurance Company
- Travelers Insurance Company

**Legal Committee**

- Liberty Mutual Insurance Company
- Nationwide Mutual Insurance Company
- St. Paul Fire & Marine Insurance Company
- State Farm Mutual Automobile Insurance Co
- Travelers Indemnity Company

The Automobile, Property and Workers Compensation Committees are concerned with all matters pertaining to the respective coverages subject to the Bureau's jurisdiction, including the development of classifications, rules, rates, rating plans, policy forms and policy provisions; the administration of such rating systems as may become effective pursuant to laws; and the furnishing, upon request, of pertinent information relating to classifications, rules, rates, rating plans, policy forms and policy provisions to member companies. The Legal Committee has the responsibility of assisting the Governing Committee, the standing committees and the Rate Bureau Staff and Counsel in legal matters.
The Automobile Committee met four times during the year, including two telephone conferences. Allstate Insurance Company served as Chairman and Lumbermens Mutual Casualty Company served as Vice-Chairman of that Committee throughout the year covered by this Report.

The Property Committee met one time during the year. North Carolina Farm Bureau Mutual Insurance Company served as Chairman and State Farm Fire and Casualty Company served as Vice-Chairman of that Committee throughout the year covered by this Report.

The Workers Compensation Committee met once during the year. During the year covered by this Report, Travelers Insurance Company was elected as Chairman and Harleysville Mutual Insurance Company was elected as Vice-Chairman of that Committee.

The Travelers Indemnity Company served as Chairman of the Legal Committee throughout the year covered by this Report. Although the Legal Committee held no meetings during the year, members were kept aware of developments.

In addition to the four standing committees there were a number of subcommittees that also met during the year. These were the Personal Auto Policy Subcommittee, the Subcommittee on Automobile Territories, the Property Rating Subcommittee and the Property Forms Subcommittee.

LEGISLATION

With respect to the Rate Bureau’s operations and lines of insurance subject to the Rate Bureau’s jurisdiction, the 2002 Session of the General Assembly of North Carolina enacted the following legislation:

SB 1115 – Sets the insurance regulatory charge at 6.5% of the premium tax for the 2002 calendar year.

HB 1105 – Provides that insurers shall bear the costs of independent professionals and specialists retained by the Department of Insurance in examinations of insurers and enables the Commissioner to have copies of records sent to the Department rather than having on-site examinations. This Bill became effective July 1, 2002.
AUTOMOBILE INSURANCE ACTIVITIES

The following automobile insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2002:

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1, 2001</td>
<td>New &amp; Revised Commercial Auto Coverage Policy Forms</td>
</tr>
<tr>
<td>December 1, 2002</td>
<td>Withdrawal of Link Plus Policy Program</td>
</tr>
<tr>
<td>April 1, 2002</td>
<td>North Carolina Personal Auto Policy – Amendatory Endorsements NC 00 12 (Ed. 01 02) and NC 00 13 (Ed. 01 02)</td>
</tr>
</tbody>
</table>

Rate Revisions

(1) 2001 Private Passenger Automobile Rate Filing

The Twenty-Fourth Annual Report dated September 1, 2001 reported that on May 1, 2001, the Rate Bureau had 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 automobile liability and physical damage and a decrease of 2.4% for motorcycles. Revised rates were proposed to become effective October 1, 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 that disapproved the Rate Bureau’s filed rates and ordered an overall rate level decrease of 13.0% for non-fleet private passenger automobiles and a decrease of 15.9% for motorcycles effective April 1, 2002.

During a meeting held on January 3, 2002, the Governing Committee of the Rate Bureau voted (a) 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; (b) to proceed with implementation of rate level changes that result in an overall rate level increase of 5.0% for non-fleet private passenger automobiles; and (c) to implement a rate level decrease 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.
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 filing also proposed changes in the uninsured and uninsured/underinsured motorist rates, increased limits factors and classification and sub-classification factors. Revisions proposed by the filing were proposed to become effective October 1, 2001.


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

Deviations

As of August 31, 2002, there were 199 member companies with approved deviations applicable to insurance for non-fleet private passenger automobiles, up from 195 one year ago. Eleven companies' deviations applied to physical damage coverage only, 183 companies' deviations applied to both the liability and physical damage coverages and 5 companies had a liability only deviation.

Appeals By Insureds

The Staff conducted 38 hearings during the year on appeals by insureds to the Rate Bureau under the provisions of G.S. 58-36-1(2). All cases involved disputed assignment of "points" under the Safe Driver Insurance Plan. Staff sustained the carrier's rating in 18 of the cases and ruled that the carrier had incorrectly interpreted the rules of the Safe Driver Insurance Plan in 17 cases. Three hearings conducted resulted in a reduction in the number of points charged.

Legislation

The North Carolina General Assembly met during the period covered by the Report, however, there was no legislation enacted that affected the automobile insurance coverages subject to the Rate Bureau’s jurisdiction.
### PROPERTY INSURANCE ACTIVITIES

The following property insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ending August 31, 2002:

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Subject</th>
</tr>
</thead>
</table>
| February 1, 2002 | Homeowners & Dwelling Policy Programs –  
Public Protection Classification 9E  
Manual Rule Changes |
| May 1, 2002 | Homeowners Policy Program –  
Mold and Fungus Coverage  
Manual Rule Changes  
Amendatory Endorsement HO 32 33 10 01  
Notice To Policyholder |
| May 15, 2002 | Dwelling Policy Program –  
Inflation Guard Endorsement – NC |
| August 15, 2002 | Homeowners Policy Program –  
Redefinition of Territory Boundaries |
| August 15, 2002 | Homeowners Policy Program –  
Absolute Windstorm or Hail Exclusion  
Manual Rule and Endorsement |
| August 15, 2002 | Homeowners Policy Program –  
Acknowledgment of No Coverage for  
Windstorm or Hail – WH 00 01 |
| August 15, 2002 | Homeowners Policy Program –  
HO 00 06 Policy Form |

### Rate Revisions

On March 22, 2002, the Rate Bureau filed with the Commissioner of Insurance revised Homeowners Insurance rates which included rates for the owners forms as well as the tenants and condominiums. The filing proposed an average statewide rate level increase of 20%, revised windstorm or hail exclusion credits and revised key factors for Coverage A for all forms except HO-4 and HO-6.

Following lengthy negotiations with the Department of Insurance, the Rate Bureau implemented an average statewide increase of 5%, with an increase of 30% in the beach territories and an increase of 20% in the coastal territories. The rate level changes became effective August 15, 2002.
Deviations

The following table shows the number of member companies with approved deviations as of August 31 of the years indicated:

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire and Extended Coverage</td>
<td>85</td>
<td>82</td>
</tr>
<tr>
<td>Homeowners</td>
<td>211</td>
<td>196</td>
</tr>
<tr>
<td>Mobile Home Owner MH(C)</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Mobile-Homeowners MH(F)</td>
<td>22</td>
<td>23</td>
</tr>
</tbody>
</table>

Legislation

The 2002 Session of the General Assembly of North Carolina enacted the following legislation that affects property insurance coverages subject to the Rate Bureau’s jurisdiction:

HB 760 – With regard to any Property Insurance filing made by the Rate Bureau, this Bill (i) provides that, unless there is an agreement to an earlier effective date, no filing may become effective earlier than 210 days from the date received by the Commissioner of Insurance and (ii) amends the date for the Commissioner to issue an order of disapproval on any filing from 105 days to 210 days.
WORKERS COMPENSATION INSURANCE ACTIVITIES

The following workers compensation insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2002:

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>U-1372</td>
<td>Issuing Agency/Producer Office Address</td>
<td>November 15, 2001</td>
</tr>
<tr>
<td></td>
<td>Endorsement - WC 89 06 25</td>
<td></td>
</tr>
<tr>
<td>RM-W-8024-NC</td>
<td>Workers Compensation Insurance Plan - Amendments to the National Workers Compensation Reinsurance Pool Articles of Agreement</td>
<td>January 1, 2002</td>
</tr>
<tr>
<td>B-1373</td>
<td>Basic Manual Rules Enhancements</td>
<td>July 1, 2002</td>
</tr>
<tr>
<td>R-1378</td>
<td>2002 Update to Retrospective Rating Plan Parameters</td>
<td>July 1, 2002</td>
</tr>
</tbody>
</table>

Many endorsements, submitted by individual member insurance companies, were also filed by the Bureau and approved by the Commissioner.

Rate Revisions

(1) August 31, 2001 Loss Costs Filing

The Twenty-Fourth Annual Report dated September 1, 2001 reported that on August 31, 2001, the Rate Bureau had submitted to the Commissioner of Insurance a filing that proposed an average loss costs decrease of 1.4% for the industrial classifications and an average pure premium decrease of 16.1% for the “F” codes.

On October 15, 2001, the Commissioner approved the loss costs filing. The prospective loss costs, rating values and miscellaneous values became effective April 1, 2002.

(2) August 31, 2001 Residual Market Rate Filing

The Twenty-Fourth Annual Report dated September 1, 2001 reported that on August 31, 2001, the Rate Bureau had submitted to the Commissioner of Insurance a filing that proposed an average increase of 5.2% in the overall premium level of the workers compensation insurance residual market for the industrial codes and an overall premium decrease of 10.5% for the “F” codes.

On October 15, 2001, the Commissioner approved the residual market rate filing. Revised rates, rating values and miscellaneous values became effective April 1, 2002.

Appeals by Insureds

During the year covered by this Report there were no employer appeals heard by the Workers Compensation Committee.
Field and Office Service

The following summarizes the work of the two inspectors, as well as the rating and policy review activities of the Bureau during the year covered by this Report and during the previous year:

<table>
<thead>
<tr>
<th>Year Ended August 31</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inspection Program:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inspection reports processed</td>
<td>684</td>
<td>658</td>
</tr>
<tr>
<td>Number in agreement with carriers' classifications</td>
<td>244</td>
<td>255</td>
</tr>
<tr>
<td>Number in disagreement with carriers' classifications</td>
<td>440</td>
<td>403</td>
</tr>
<tr>
<td><strong>Rating:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intrastate experience ratings</td>
<td>31,863</td>
<td>30,773</td>
</tr>
<tr>
<td><strong>Policy Review:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policies received</td>
<td>132,452</td>
<td>136,160</td>
</tr>
<tr>
<td>Endorsements received</td>
<td>101,030</td>
<td>100,898</td>
</tr>
<tr>
<td>Cancellations/Reinstatements</td>
<td>70,124</td>
<td>73,063</td>
</tr>
</tbody>
</table>

In accordance with previously established procedures, the Rate Bureau continued to update the coverage records of the North Carolina Industrial Commission upon receipt of policy information pages, renewal certificates, endorsements, cancellation notices and reinstatement notices. Coverage information and updates are loaded into Spectrum, a customized software product designed to automate many of the activities of the Bureau, and transmitted to the Industrial Commission via a nightly batch transaction.

Workers Compensation Insurance Plan

In accordance with the provisions of the North Carolina Workers Compensation Insurance Plan 17,991 risks were assigned by the Bureau during the year ended August 31, 2002. There were 11,463 new assignments, 6,474 renewals and 34 risks extended North Carolina coverage after having been assigned in another State. During the year ended August 31, 2001 the Bureau processed 14,076 new, renewal and supplementary assignments.

Legislation

The 2002 Session of the General Assembly of North Carolina enacted the following legislation that affects workers compensation insurance:

**HB 760** – With regard to any Workers Compensation Insurance filing made by the Rate Bureau, this Bill (i) provides that, unless there is an agreement to an earlier effective date, no filing may become effective earlier than 210 days from the date received by the Commissioner of Insurance and (ii) amends the date for the Commissioner to issue an order of disapproval on any filing from 150 days to 210 days.
Following is a summary of the Rate Bureau's operating expenses paid during the twelve months ended August 31, 2001 and August 31, 2002:

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Administration</td>
<td>$1,950,868</td>
<td>$2,147,306</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>152,591</td>
<td>172,167</td>
</tr>
<tr>
<td>Rent</td>
<td>212,089</td>
<td>224,700</td>
</tr>
<tr>
<td>Travel</td>
<td>64,290</td>
<td>58,812</td>
</tr>
<tr>
<td>Postage</td>
<td>68,044</td>
<td>72,757</td>
</tr>
<tr>
<td>Software and Systems Maintenance</td>
<td>80,535</td>
<td>12,406</td>
</tr>
<tr>
<td>Printing and Office Supplies</td>
<td>70,284</td>
<td>68,302</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>244,045</td>
<td>64,553</td>
</tr>
<tr>
<td>Telephone</td>
<td>41,168</td>
<td>47,091</td>
</tr>
<tr>
<td>Group Insurance</td>
<td>275,325</td>
<td>400,984</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>69,580</td>
<td>62,971</td>
</tr>
<tr>
<td>Employees Savings Plan</td>
<td>75,253</td>
<td>92,372</td>
</tr>
<tr>
<td>Legal Expenses</td>
<td>419,998</td>
<td>977,160</td>
</tr>
<tr>
<td>Outside Services</td>
<td>4,794,819</td>
<td>5,113,599</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>44,034</td>
<td>113,003</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$8,563,444</strong></td>
<td><strong>$9,628,183</strong></td>
</tr>
</tbody>
</table>

For the year covered by the report, the 2002 expenses increased approximately 12.3% over the 2001 expenses. This change in expenses from the previous year is most attributable to the necessary legal and advisory services expenses associated with the recent rate filings and hearings. Those increases in expenses accounted for approximately 6.5% and 3.7% of the overall change, respectively. Additional staff requirements during the year, including a new Human Resources Manager, also represented approximately 1% of the increase from the prior year.

**CONCLUSION**

We are most grateful for the helpful support of those who served during the year on the Rate Bureau’s Committees and those who contributed to our work as members of the staffs of our advisory organizations and of the law firm of Young, Moore and Henderson. Working with these talented and dedicated people has been a real pleasure.

Respectfully submitted,

Raymond F. Evans, Jr.

General Manager

RFE:dg