

NORTH CAROLINA RATE BUREAU
5401 Six Forks Road • Raleigh NC • 27609
(919) 783-9790 • www.ncrb.org

MINUTES OF THE OF THE TWENTY-SIX ANNUAL MEETING OF THE NORTH CAROLINA
RATE BUREAU HELD AT THE GRANDOVER RESORT & CONFERENCE CENTER,
ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA OCTOBER 21, 2003

MEMBERS PRESENT

REPRESENTED BY

Alliance Mutual Insurance Company	Mr. R. White
Allstate Insurance Company	Mr. A. Ivey
Allstate Indemnity Company	
Northbrook Indemnity Company	
Alpha Property & Casualty Insurance Company	Mr. J. Tanaka
American Home Assurance Company	Ms. M. McQueen
AIU Insurance Company	
American International South Insurance Company	
Birmingham Fire Insurance Company of PA	
Commerce & Industry Insurance Company	
Granite State Insurance Company	
Insurance Company of the State of PA	
National Union Fire Insurance Company	
New Hampshire Insurance Company	
Auto Owners Insurance Company	Mr. T. Marshall
Owners Insurance Company	
Builders Mutual Insurance Company	Ms. C. German
Government Employees Insurance Company	Ms. A. Bowen
GEICO General Insurance Company	Mr. T. McNicholas
GEICO Indemnity Company	Mr. J. Thomas
Harleysville Mutual Insurance Company	Mr. D. Pickard
Harleysville Preferred Insurance Company	Mr. R. Johnson
Harleysville-Atlantic Insurance Company	
Hartford Fire Insurance Company	Mr. T. Martensen
Hartford Accident & Indemnity Company	
Hartford Casualty Insurance Company	
Hartford Insurance Company of the Midwest	
Hartford Underwriters Insurance Company	
Property & Casualty Insurance Company of Hartford	
Sentinel Insurance Company, Ltd.	
Trumbull Insurance Company	
Twin City Fire Insurance Company	
Horace Mann Insurance Company	Mr. D. Closter
Horace Mann Property & Casualty Insurance Company	
Teachers Insurance Company	
Integon Indemnity Corporation	Mr. A. Lyon
GMAC Direct Insurance Company	
GMAC Insurance Company Online, Inc.	
Integon Casualty Insurance Company	
Integon General Insurance Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Integon Specialty Insurance Company	

New South Insurance Company	
Lumbermens Mutual Casualty Company	Mr. R. Snyder
American Manufacturers Mutual Insurance Company	
American Motorists Insurance Company	
American Protection Insurance Company	
Kemper Casualty Insurance Company	
Specialty National Insurance Company	
Liberty Mutual Insurance Company	Mr. B. Jones
First Liberty Insurance Corporation	Ms. C. Watts
Liberty Insurance Corporation	
Liberty Mutual Fire Insurance Company	
LM Insurance Corporation	
Nationwide Mutual Insurance Company	Mr. D. Gettles
Nationwide Affinity Insurance Company	Mr. B. Kistner
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
North Carolina Farm Bureau Mutual Insurance Company	Mr. R. Batdorff
Farm Bureau Insurance of North Carolina, Inc.	Mr. S. Carroll
Pennsylvania National Mutual Casualty Insurance Company	Ms. P. Lovell
Penn National Security Insurance Company	Mr. A. Stowe
Progressive Casualty Insurance Company	Mr. S. McKay
National Continental Insurance Company	Mr. A. Rose
Progressive American Insurance Company	
Progressive Northern Insurance Company	
Progressive Northwestern Insurance Company	
Progressive Preferred Insurance Company	
Progressive Southeastern Insurance Company	
United Financial Casualty Company	
Royal Insurance Company of America	Mr. V. Willis
American & Foreign Insurance Company	
AXIS Reinsurance Company	
Connecticut Indemnity 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 Indemnity Company	
Safeguard Insurance Company	
Sea Insurance Company of America	
Security Insurance Company of Hartford	
Southern General Insurance Company	Ms. A. Haithcock
State Automobile Mutual Insurance Company	Mr. W. Florence
State Automobile National Insurance Company	
State Automobile Property & Casualty Insurance Company	
State Farm Mutual Automobile Insurance Company	Mr. C. Kiehl
State Farm Fire & Casualty Company	Ms. C. Lowe
State Farm General Insurance Company	Mr. B. Messier
	Mr. D. Stoller
Travelers Indemnity Company	Mr. B. Seagle
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	
Travelers Casualty & Surety Company of America	
Travelers Casualty & Surety Company of Illinois	
Travelers Casualty Company of Connecticut	
Travelers Commercial Casualty Company	
Travelers Commercial Insurance Company	
Travelers Home & Marine Insurance Company	
Travelers Indemnity Company	
Travelers Indemnity Company of America	
Travelers Indemnity Company of Connecticut	
Travelers Indemnity Company of Illinois	
Travelers Insurance Company	
Travelers Personal Security Insurance Company	
Travelers Property Casualty Insurance Company	
Universal Insurance Company	Mr. G. Spray
United Services Automobile Association	Ms. L. Roth
USAA Casualty Insurance Company	
USAA General Indemnity Company	
Utica Mutual Insurance Company	Mr. F. Graham
Graphic Arts Mutual Insurance Company	
Republic-Franklin Insurance Company	
Zurich American Insurance Company	Mr. J. Wells
American Guarantee & Liability Insurance Company	
American Zurich Insurance Company	
Assurance Company of America	
Colonial American Casualty & Surety Company	
Fidelity & Deposit Company of Maryland	
Maryland Casualty Company	
Northern Insurance Company of New York	
Valiant Insurance Company	

OTHERS PRESENT

Evergreen Investment Management Company	Mr. R. Applebach
Insurance Services Office	Mr. P. Woods
Young, Moore & Henderson	Mr. M. Spivey
	Mr. M. Strickland
	Mr. B. Trott
Staff	Mr. J. Auman
	Mr. R. Evans
	Ms. V. Godbold
	Ms. L. Gould
	Mr. W. Hinton
	Ms. K. Hopkins
	Ms. B. Hurst
	Ms. C. Johnson
	Mr. T. Lucas
	Ms. L. Murphey
	Mr. G. Rogers
	Mr. D. Sink

279 other members were represented by proxy.

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

Attention was directed to the Conflict of Interest Statement and Antitrust Compliance Policy.

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

1. Annual Report

Mr. Evans reviewed and commented on the 2003 Annual Report, a copy of which is attached hereto.

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 American Home Assurance Company, a member of the AIG Group, and State Automobile Mutual Insurance Company to become members of the Governing Committee. Nationwide Mutual Insurance Company and Travelers Indemnity Company were nominated to continue their membership with the Governing Committee.

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 representatives of Royal Insurance Company of America and Harleysville Mutual Insurance Company for their contributions as members of the Governing Committee during the past term.

3. Chairman's Comments

Mr. Marshall recognized and thanked the Rate Bureau Staff, Counsel and Consultants for their efforts during the year. He also expressed appreciation to 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,

Raymond F. Evans, Jr., CPCU

General Manager

RFE:lm

Enclosure

G-03-3

11/18/03

NORTH CAROLINA RATE BUREAU

5401 SIX FORKS ROAD RALEIGH, NC 27609



2003 ANNUAL REPORT

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MESSAGE FROM THE CHAIRMAN

“The Governing Committee shall have charge of administration of the Bureau,....and shall have the following powers, duties and obligations:

(2) To select at its annual meeting a chairman....from the members of the Governing Committee....”

NCRB Constitution, Article VIII

During the past two years, it has been my privilege to serve as Chairman of the North Carolina Rate Bureau Governing Committee. This has been a challenging but rewarding experience for me, which has reinforced my faith in the integrity and value of the property and casualty insurance industry. Insurance provides protection and security to individuals, families and businesses, facilitates property ownership and business development, enables our economic system to function efficiently, provides recovery from financial loss, and enables dreams to come true.



I am especially grateful to the staff and legal counsel of the Rate Bureau for their service to the insurance industry. They have consistently demonstrated integrity, dedication and professionalism. I am also grateful to each member of the Governing Committee as well as those serving on the Automobile, Property, Workers Compensation, Legal, Personnel and other committees. The member companies serving on the Governing and other committees have demonstrated unselfish dedication in serving the best interests of the North Carolina insurance industry and ultimately the citizens of North Carolina.

During the past two years, we have addressed many issues relating to the promulgation of rates as well as maintaining high standards of customer service to the member companies. I am confident that the Rate Bureau, staff, counsel and member companies will continue to focus on providing excellent service and maintaining the highest standards of integrity and professionalism. We have a high calling in our ultimate mission to provide protection and security to the citizens of North Carolina.

Sincerely,

Tom Marshall

Tom Marshall
Chairman

T H E B E G I N N I N G

There is hereby created a Bureau to be known as the “North Carolina Rate Bureau,” with the following objects and functions:

- (1) To assume the functions formerly performed by the North Carolina Fire Insurance Rating Bureau, the North Carolina Automobile Rate Administrative Office, and the Compensation Rating and Inspection Bureau of North Carolina, with regard to the promulgation of rates, for insurance against loss to residential real property with not more than four housing units located in this State and any contents thereof and valuable interest therein and other insurance coverages written in connection with the sale of such property insurance; for theft of and physical damage to private passenger (nonfleet) motor vehicles as the same are defined under Article 40 of this Chapter; for liability insurance for such motor vehicles, automobile medical payments insurance, uninsured motorists coverage and other insurance coverages written in connection with the sale of such liability insurance; and for workers’ compensation and employers’ liability insurance written in connection therewith except for insurance excluded from the Bureau’s jurisdiction in G.S. 58-36-1(3).*

NCGS 58-36-1

HISTORY OF THE NORTH CAROLINA RATE BUREAU

The North Carolina Rate Bureau became operational September 1, 1977 as the result of legislation enacted by the North Carolina General Assembly. The legislation at the same time abolished three existing statutory insurance rating bureaus, -- the Compensation Rating and Inspection Bureau of North Carolina which had been in operation since 1931, the North Carolina Automobile Rate Administrative Office which was established in 1939, and the North Carolina Fire Insurance Rating Bureau which had been operating since 1945.

The jurisdiction of the Rate Bureau is somewhat narrower than the combined jurisdictions of the three organizations it replaced. Its responsibilities are limited to insurance on non-fleet private passenger automobiles, on residential property, and workers compensation insurance.

The Bureau is an unincorporated association composed of all of the insurance companies licensed by the Commissioner of Insurance to write in North Carolina any or all of the lines within its jurisdiction. Presently there are 650 such member companies. The Bureau operates under a Constitution which vests responsibility in a 14-member Governing Committee composed of six stock and six non-stock voting member companies and two non-voting public members appointed by the Governor. There are four other standing committees which act as technical advisory committees to the Governing Committee. These are the Automobile, Property, Workers Compensation Insurance Committees, and the Legal Committee. Each of the committees meets as necessary and when called.

The Rate Bureau is located at 5401 Six Forks Road, Raleigh, North Carolina along with the North Carolina Reinsurance Facility and the North Carolina Insurance Guaranty Association. The total staff consists of 96 full-time associates and 9 part-time associates handling the activities of the three organizations. A number of the associates, notably accounting, information technology and human resources, are engaged in work for more than one of the three organizations, permitting cost-effective use of equipment and personnel. All costs are carefully allocated so that each organization bears its fair share.

The cost of operating the Bureau is borne by its member companies in proportion to their respective North Carolina premium writings, subject to a minimum annual membership fee for each of the three lines of insurance which a member company is licensed to write. The Bureau's expense budget for the current calendar year is approximately \$10.5 million.

Functions -- Article 36 of Chapter 58 which created the Bureau details its responsibilities. The principal function is to establish, subject to the approval of the Commissioner, standard rates, rating plans, classification systems and forms for the lines of insurance within its jurisdiction.

Duties -- The task of maintaining the standard policy and endorsement forms and the rates, rules, classifications and rating plans in an ever-changing environment involves constant review of statistical information, evaluation of proposals for change and preparation of filings for submission to the Commissioner of Insurance.

Insurance policy and endorsement forms for the coverages subject to the Rate Bureau's jurisdiction have been standardized in North Carolina, and all companies writing the coverages in the State have been required to use the standard forms approved by the Commissioner.

Proposals For Filing -- From time-to-time the Rate Bureau receives mandatory and optional proposals for changes to existing programs and for new programs (forms, classifications and rules). The proposals are presented to Rate Bureau Staff from representatives of member companies, insurance agents, advisory organizations (Insurance Services Office, National Council on Compensation Insurance and American Association of Insurance Services) Insurance Department personnel, and in the form of legislation and court decisions.

All proposals are referred to the appropriate technical committee (automobile, property or workers compensation) for review and formulation of any appropriate recommendations for consideration by the Governing Committee. The Governing Committee has the authority to accept or reject the technical committees' recommendations and only the Governing Committee has the authority to direct the Rate Bureau Staff to prepare and submit a filing.

Any proposal adopted by the Rate Bureau and filed with the Commissioner of Insurance is filed on behalf of all member companies. Individual company filings are not permitted to be filed by the Rate Bureau.

Reporting of Statistical Data – Member companies are required to code North Carolina premiums and losses in accordance with standard statistical plans and procedures and report data to one of several statistical agents. Reports submitted by the companies to the statistical agents are examined and tested in order to detect and secure correction of any errors or omissions. The reports are aggregated and the consolidated statistical data are then used to prepare rate filings. The Rate Bureau itself collects, examines and tabulates some of the necessary ratemaking data.

In the current insurance world rate bureaus are relatively rare, as many states have opted for open competition or other regulatory processes. The North Carolina Legislature, however, continues to charge the Rate Bureau with promulgating rates for over \$6 billion in premium.

With constituents ranging from members, to policyholders, to consumer groups, to employers and a considerable economic impact on North Carolina, the Rate Bureau strives to meet its statutory obligation and provide service to members professionally with honesty and integrity.

G O V E R N A N C E

“Each member of the Bureau writing any one or more of the above lines of insurance in North Carolina shall, as a requisite thereto, be represented in the Bureau and shall be entitled to one representative and one vote in the administration of the affairs of the Bureau.

NCGS 58-36-5(b)

MEMBERSHIP

“Before the Commissioner shall grant permission to any stock, nonstock, or reciprocal insurance company or any other insurance organization to write in this state . . . it shall be a requisite that they shall subscribe to and become members of the Bureau.”

NCGS 58-36-5(a)

At the beginning of the period covered by this report there were 654 member companies. Of these 614 were members for automobile insurance, 601 were members for residential property insurance and 491 were members for workers compensation insurance.

During the report year these companies became members:

Member Company	Automobile	Residential Property	Workers Compensation
Accident Fund Insurance Company of America Lansing, Michigan			●
Admiral Indemnity Company Cherry Hill, New Jersey	●	●	●
American Family Mutual Insurance Company Madison, Wisconsin	●	●	●
American Standard Insurance Company of WI Madison, Wisconsin	●		
Associated Industries Mutual Insurance Co Greensboro, North Carolina			●
Intrepid Insurance Company Farmington Hills, Michigan	●		
Planet Indemnity Company Peoria, Illinois	●	●	
Quadrant Indemnity Company Warren, New Jersey	●	●	●
State National Insurance Company, Inc. Fort Worth, Texas	●	●	
United National Casualty Insurance Company Hammond, Indiana	●	●	
York Insurance Company Providence, Rhode Island	●	●	●

These companies, as a result of merger or insolvency, withdrew from membership during the past year:

Member Company	Automobile	Residential Property	Workers Compensation
Blue Ridge Insurance Company	●	●	
Chartwell Insurance Company	●	●	●
Design Professionals Insurance Company	●	●	●
Employee Benefits Insurance Company	●	●	●
Fremont Indemnity Company	●	●	●
International Insurance Company	●	●	●
Legion Insurance Company	●	●	●
Millers Insurance Company	●	●	●
Northwestern National Casualty Company	●	●	●
Omaha Indemnity Company	●	●	●
Penn Mutual Insurance Company		●	●
Reciprocal of America	●	●	●
US International Reinsurance Company	●	●	●
Villanova Insurance Company	●	●	●

In summary, as of August 31, there were 650 member companies, 609 for automobile insurance, 593 for residential property insurance and 484 for workers compensation insurance. A net loss of four member insurers during the year.

GOVERNING COMMITTEE

“They shall (members), upon organization, elect a governing committee which governing committee shall be composed of equal representation by stock and nonstock members. The governing committee of the Bureau shall also have as nonvoting members two persons who are not employed by or affiliated with any insurance company or the Department and who are appointed by the Governor to serve at his pleasure.

NCGS 58-36-5(6)

The Constitution of the Rate Bureau details that there are 14 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.



At the October, 2002 annual meeting these members companies were elected or continued to serve as voting members of the Governing Committee:

Term
Expires

2003	Harleysville Mutual Insurance Company Nationwide Mutual Insurance Company Royal Insurance Company of America Travelers Indemnity Company
2004	Allstate Insurance Company Auto-Owners Insurance Company Integon Indemnity Insurance Company Liberty Mutual Insurance Company
2005	Hartford Fire Insurance Company NC Farm Bureau Mutual Insurance Company St. Paul Fire & Marine Insurance Company State Farm Mutual Automobile Insurance Company

During the past year the members of the Governing Committee were represented by these individuals:

Art Ivey, Consultant Pinehurst, North Carolina	Allstate Insurance Company
Thomas S. Marshall, CPCU Regional Vice President Charlotte, North Carolina	Auto Owners Insurance Company
Robert Johnson Resident Vice President Greensboro, North Carolina	Harleysville Mutual Insurance Co
Todd Martensen Product Manager Southington, Connecticut	Hartford Fire Insurance Company
Art Lyon Executive Consultant Winston Salem, North Carolina	Integon Indemnity Corporation
Cheryl Watts SE Division Underwriting Manager Charlotte, North Carolina	Liberty Mutual Insurance Company
Dave Gettles, Vice President State Officer Raleigh, North Carolina	Nationwide Mutual Insurance Co
Roger Batdorff, Senior Executive Actuarial & Research Department Raleigh, North Carolina	NC Farm Bureau Mutual Insurance Co
Andrea Fitzgerald State Relations Representative Government & Industry Relations Charlotte, North Carolina	Royal Insurance Company of America
Tom Rosie, Managing Director Charlotte, North Carolina	St. Paul Fire and Marine Insurance Co
Terry Pemberton, Manager Planning & Information Herndon, Virginia	State Farm Mutual Automobile Ins Co
Benjy Seagle, Industry Affairs Charlotte, North Carolina	Travelers Indemnity Company

In addition these non voting members represented the Governor of North Carolina at Governing Committee meetings:

Max Offerman	Cary, North Carolina
John Wei	Cary, North Carolina

CONSTITUTIONAL COMMITTEES

“The Governing Committee shall have . . . supervision and direction over all committees of the Bureau . . . and to appoint a Workers Compensation Committee, a Property Committee, an Automobile Committee and a Legal Committee, which committees shall have the authority, duties and functions as provided in Article IX of this Constitution and shall have independent power to authorize actions of the Bureau as delegated by the Governing Committee”

NCRB Constitution, Article VIII(a)(b)

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

In general each committee, the Legal Committee differs some, 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;
- (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.

The results of this process, in actual filings, is detailed later in this report.

Currently, these members and their representation are serving on the Constitutional Committees:

Automobile Committee

Steve Armstrong
Allstate Insurance Company

Dwayne Rader
Nationwide Mutual Insurance Company

Tom McNicholas
GEICO Indemnity Company

Donna Glenn
Hartford Fire Insurance Company

Roger Batdorff
NC Farm Bureau Mutual Insurance Co

Jerry Rett
Progressive Casualty Company

John Dasti
Royal/Sun Alliance Group

Art Lyon
Integon Indemnity Corporation

Kathy Popejoy
State Farm Mutual Automobile Ins Co

Jeff Woodcock
Liberty Mutual Insurance Company

Jonathan Konrad
Travelers Companies

Amy Brown
Lumbermens Mutual Casualty Company

Tim Ungashick
USAA

Legal Committee

Thomas Hiers
Liberty Mutual Insurance Company

Thomas Dietrich
Nationwide Mutual Insurance Company

Scott Shaffer
State Farm Mutual Automobile Ins Co

Frank Sadowski
Travelers Indemnity Company

Jim Crist
St. Paul Companies

Property Committee

David Border
Allstate Insurance Company

Chuck Uckele
Penn National Insurance Companies

Amy Brown
Kemper National Insurance Companies

Doreen Vaughan
Nationwide Mutual Insurance Company

Steve Carroll
NC Farm Bureau Mutual Insurance Co

John Dasti
Royal/Sun Alliance Group

Bob Messier
State Farm Fire & Casualty Company

Thomas Woods
USAA

Workers Compensation Committee

Charmaine German
Builders Mutual Insurance Company

Gary Sweeny
Harleysville Mutual Insurance Company

Bill West
Hartford Accident & Indemnity Company

Cheryl Watts
Liberty Mutual Insurance Company

Joseph Wells
Maryland Casualty Company

Roger Batdorff
NC Farm Bureau Mutual Insurance Co

Vita Anthony
Ohio Casualty Insurance Company

Alan Stowe
PA National Mutual Casualty Insurance Co

Vernon Willis
Royal Insurance Company of America

Tom Rosie
St. Paul Fire & Marine Insurance Company

Wade Overgaard
Travelers Insurance Company

In addition to these committees there are a number of subcommittees and task forces which have been appointed to provide additional expertise or resources for more specific matters. During the time covered by this report these committees have met and added to the ability of the Bureau to function smoothly.

Subcommittee on Automobile Territories

Kathy Olcese
Allstate Insurance Company

Art Lyon
Integon Indemnity Corporation

Dwayne Rader
Nationwide Mutual Insurance Company

Kathy Popejoy
State Farm Mutual Automobile Ins Co

Jonathan Konrad
Travelers Insurance Company

Property Rating Subcommittee

David Border
Allstate Insurance Company

Randy Krauss
Travelers Property & Casualty Company

Robert La Prete
Nationwide Mutual Insurance Company

Susan Cleaver
State Farm Fire & Casualty Company

Josh Worsham
Royal Insurance Company of America

Roger Batdorff
NC Farm Bureau Mutual Insurance Co

N C R B O R G A N I Z A T I O N A L S T R U C T U R E

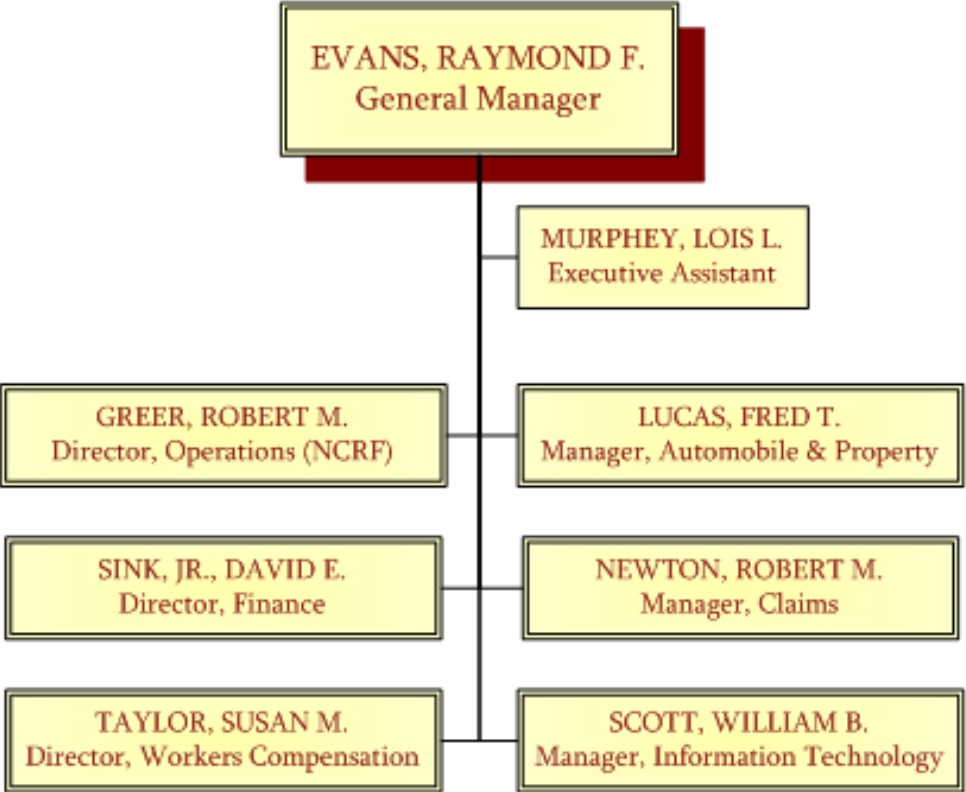
“With the approval of the Governing Committee, hire and supervise the staff and personnel and produce and maintain the office space and office equipment necessary to the effective and efficient operation of the Bureau.”

NCRB Constitution, Article X(d)

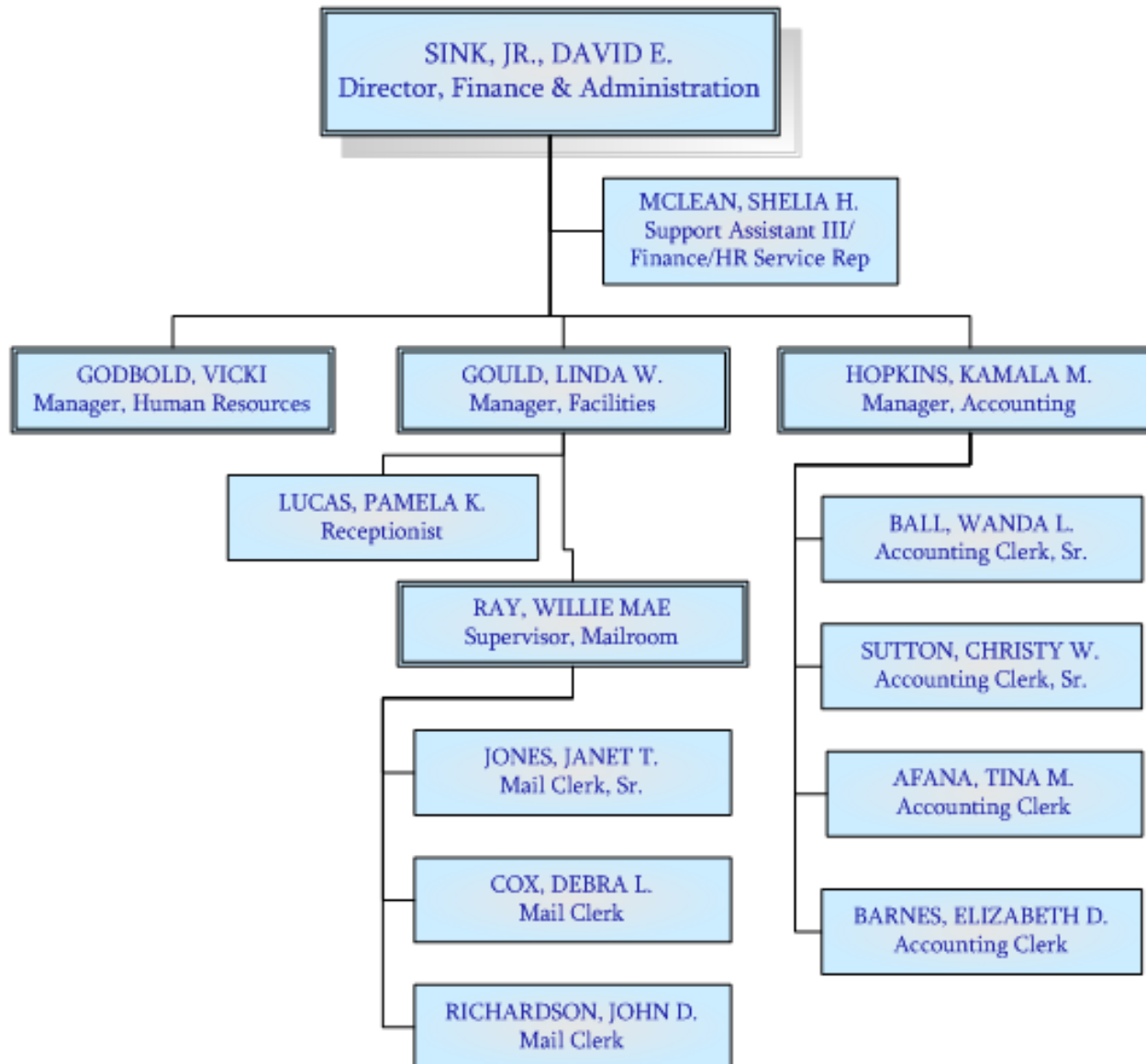
To fulfill its obligations the Bureau employs a staff of associates. Broadly speaking, each associate is a part of one of four operations units: Automobile Insurance, Property Insurance, Workers Compensation Insurance or Supporting Operations.

The following organizational charts describe how the Bureau is organized and staffed.

GENERAL MANAGER - ADMINISTRATION

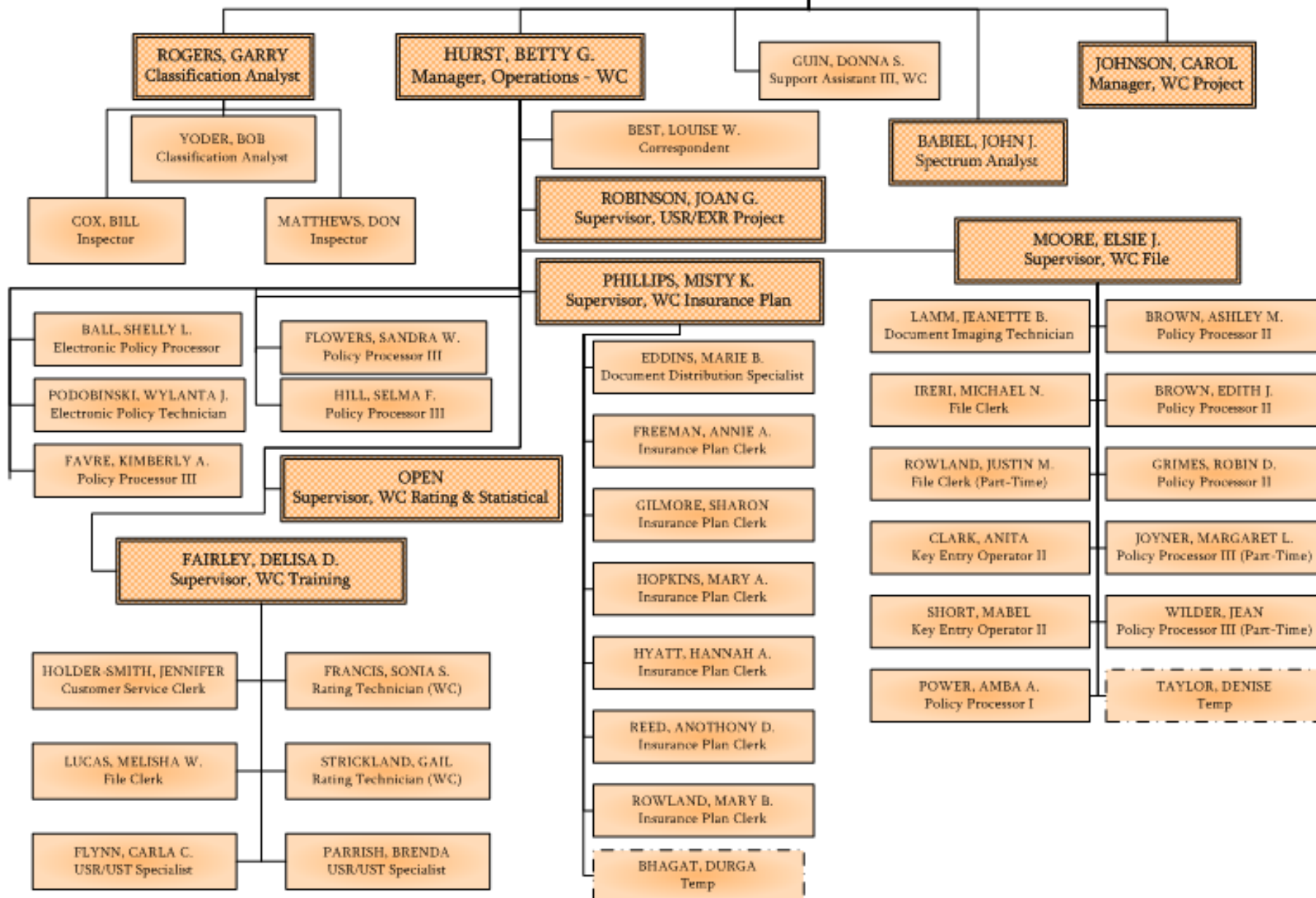


FINANCE & ADMINISTRATION

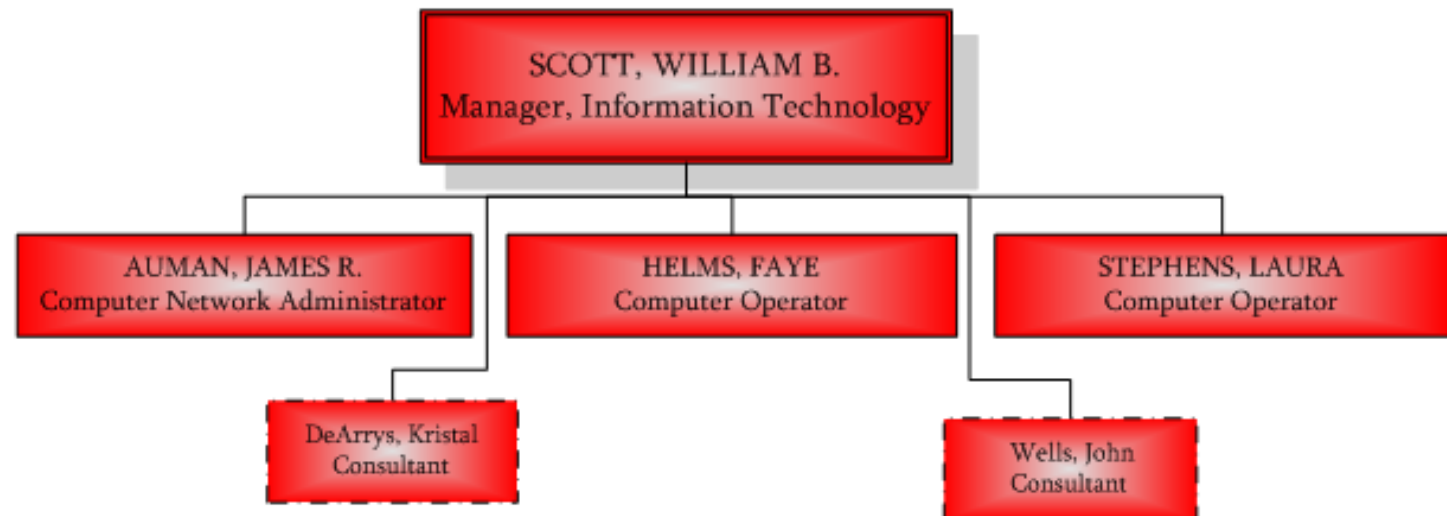


WORKERS COMPENSATION

TAYLOR, SUSAN M.
Director, Workers Compensation



INFORMATION TECHNOLOGY & DATA PROCESSING



I N S U R A N C E O P E R A T I O N S

A U T O M O B I L E I N S U R A N C E

“The Bureau shall promulgate and propose rates . . . for insurance against theft of or physical damage to nonfleet private passenger motor vehicles, automobile medical payments insurance, uninsured and underinsured motorists coverage and other insurance coverages written in connection with the sale of such liability insurance”

NCGS 58-36-1(3)

AUTOMOBILE INSURANCE OPERATIONS

“The Bureau shall promulgate and propose rates . . . for insurance against theft of or physical damage to nonfleet private passenger motor vehicles for liability insurance for such motor vehicles, automobile medical payments insurance, uninsured and underinsured motorists coverage and other insurance coverages written in connection with the sale of such liability insurance . . .

NCGS 58-36-1(3)

“With respect to the filing of rates for nonfleet private passenger motor vehicle insurance, the Bureau shall on or before February 1 of each year . . . file with the Commissioner any proposed adjustments in the rates for all member companies of the Bureau.”

NCGS 58-36-15(d)

“Whenever a Bureau rate is held to be unfairly discriminatory or excessive . . . the Bureau . . . shall have the option to continue such rate for the interim period pending judicial review of such order provided each such member shall place in escrow account the purportedly . . . excessive portion of the premium collected during such interim period.”

NCGS 58-36-25(b)

“No policy form applying to insurance on risks or operations covered by this Article may be delivered or issued for delivery unless it has been filed with the Commissioner by the Bureau . . .”

NCGS 58-36-55

“The Bureau shall file subject to review, modification and promulgation by the Commissioner a Safe Driver Incentive Plan that adequately and factually distinguishes among various classes of driver . . .”

NCGS 58-36-65(b)

“If an insured disputes his insurer’s determination that the operator of an insured vehicle was at fault in an accident, such dispute shall be resolved pursuant to GS 58-36-1(2) unless there has been an adjudication or admission of negligence of such operator.”

NCGS 58-36-65(h)



NCRB automobile insurance operations largely consist of three primary functions.

1. Rate filings
2. Forms filings
3. Safe Driver Insurance Plan administration

During the period of this report there were three private passenger auto rate filings or revisions actively being worked by the Bureau.

1. 2001 Private Passenger Automobile Rate Filing

On May 1, 2001, the Rate Bureau filed with the Commissioner of Insurance revised rates for private passenger automobiles and motorcycles. The filing proposed an overall rate level increase of 10.7% for private passenger automobile liability and physical damage and a decrease of 2.4% for motorcycles to become effective October 1, 2001.

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

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

During a meeting held on January 3, 2002, the Governing Committee of the Rate Bureau voted to appeal to the North Carolina Court of Appeals the Commissioner's Order and to proceed with implementation of rate level changes resulting in an overall rate level change of +5.0% for non-fleet private passenger automobiles; and change of -4.9% for motorcycle liability coverage.

This action necessitated a premium escrow of the difference in premiums implemented and the Commissioner's ordered rates.

At the time of publication of this report the Appeals Court rendered a decision which was still being evaluated by the Bureau.

2. 2002 Private Passenger Automobile Rate Filing

On February 1, 2002, the Rate Bureau filed with the Commissioner of Insurance revised rates for private passenger automobiles and motorcycles. The filing proposed an overall rate level increase of 5.9% for private passenger automobile liability and physical damage and an increase of 3.5% for motorcycles. The filing also proposed changes in the uninsured and combined uninsured/underinsured motorist rates, increased limits factors and classification and sub-classification factors. It was proposed to become effective October 1, 2001.

On March 14, 2002, the Commissioner of Insurance issued a Notice of Public Hearing in connection with this filing and hearing convened on July 15, 2002. Following the conclusion of the public hearing on August 28, 2003, the Commissioner of Insurance entered an Order disapproving the Rate Bureau's filed rates and ordering overall rate level changes of -17.8% for non-fleet private

passenger automobiles and -10.0%.

On October, 29, 2002, the Governing Committee of the Rate Bureau voted to appeal the Commissioner's Order to the North Carolina Court of Appeals. It further determined to proceed with implementation of rate level changes that resulted in an overall rate level change of +5.9% for non-fleet private passenger automobiles effective January 27, 2003.

This action resulted in an escrow for members of the difference between the implemented rate and the rate level ordered by the Commissioner.

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

3. 2003 Private Passenger Automobile Rate Filing

On February 1, 2003, the Rate Bureau filed with the Commissioner revised rates including an overall decrease of 10% for private passenger automobile liability and physical damage including motorcycle liability.

After negotiations with the Department of Insurance the Rate Bureau agreed to enter a consent order with the Department for an overall decrease of -15% for auto liability and physical damage including motorcycle liability effective July 1, 2003.

These rates are currently in effect.

Forms filings are generally the result of legislation or requests from member companies.

During the period of this report there were three bills passed in the General Assembly and ratified that impacted automobile operations.

HB 1023 - Amended the underinsured motorist coverage provisions to provide for "stacking" between auto liability policies. It also amended the definition of underinsured motor vehicle. This change becomes effective January 1, 2004.

In reaction to this bill, the Rate Bureau filed a form and rates, subsequently approved by the Department of Insurance and effective January 1, 2004.

HB 986 - Provides that the Rate Bureau will develop an optional policy endorsement that will allow the policyholder to purchase coverage that will provide original equipment manufactured parts in case of a physical damage loss. This becomes effective January 1, 2004.

The Rate Bureau, in response to this bill, filed rates and forms with the Department of Insurance for optional use by member companies.

At the time of publication of this report there were continuing negotiations with the Department about the exact requirements of the law and this matter is still pending.

HB 358 - Amended the threshold for charging "points" for at-fault accidents. The two "point" threshold changed from \$1,500 to \$1,800 and the three "point" threshold changed from \$2,500 to \$3,000.

As a result of this legislation the Rate Bureau is preparing changes to the manual rules effective January 1, 2004.

The administration of the Safe Driver Insurance Plan in addition to responding to the legislation noted above, includes hearing appeals from policyholders regarding the application of points.

During the year covered by this report, the Rate Bureau entertained 306 requests for appeal hearings.

Of these requests 45 actually resulted in a hearing.

In most cases an appeal is heard by three associates of the Rate Bureau. The appellant policyholder presents testimony as does the member issuing the policy.

After hearing the details about the circumstances leading to the points being applied the Rate Bureau publishes a decision based on the facts of the case and the proper application of the SDIP.

In the 45 hearings during this report period, the member correctly applied the rules in 22 cases and was determined to have applied them inappropriately in 20 cases. In three cases the points were reduced.

Additionally, in 28 cases, points were voluntarily reduced or removed prior to a hearing.

Supporting, gathering and aggregating data used in rate and form filings the Rate Bureau implemented a web based data reporting program. This allows members to report certain data, which is edited on-line and simultaneously aggregated considerably increasing the accuracy and effective use of our data gathering functions.

PROPERTY INSURANCE OPERATIONS

The property insurance operations include jurisdiction over residential property insurance including homeowners policies, dwelling fire policies and mobile home policies.

Support activities in those lines gather data and file forms and rates with the Department of Insurance.

During the period covered by this report, these form changes were filed by the Bureau and approved by the Insurance Department:



Filing Date	Subject
February 11, 2003	Homeowners Policy Program –HO 32 33 Amendatory Endorsement NC – Manual Rules Filing
February 11, 2003	Homeowners Policy Program HO 32 33 – Special Provision NC Forms Filing
February 11, 2003	Homeowners Policy Program –HO 32 89 Coverage C Increased Special Limits of Liability – Manual Rules Filing
February 11, 2003	Dwelling Policy Program Special provisions NC Forms Filing
February 26, 2003	Mobile Home Policy Program MH(C) Windstorm or Hail Exclusion
February 26, 2003	Mobile Home Policy Program MH(F) Windstorm or Hail Exclusion
April 25, 2003	Homeowners Enhancement Program Special Provisions NC Form Filing
May 14, 2003	Dwelling Policy Program Redefinition of Territory Boundaries
May 28, 2003	Acknowledgement of No Coverage for Windstorm or Hail MH(C) & MH (F) Policy Programs
July 2, 2003	Homeowners Blanket Property Program HB 32 32 04 03 Special Provisions – NC
August 21, 2003	Acknowledgment of No Coverage for Windstorm or Hail WH 00 01 11 03

The following property insurance filing submitted by the Rate Bureau remained pending before the Commissioner of Insurance during the year ending August 31, 2003.

August 28, 2003

Introduction of Homeowners Policy Program
(2000 Edition) Forms and Endorsements

One property insurance rate revision was filed by the Bureau and approved by the Department of Insurance during this period.

On June 26, 2003, the Rate Bureau filed revised Dwelling Insurance rates that included rates for fire and extended coverage. The filing proposed an average statewide rate level increase of 42.8% and revised windstorm or hail exclusion credits.

Following lengthy negotiations with the Department of Insurance, the Rate Bureau implemented an average statewide increase of 13.6% with increases in the beach territories of 20% and the coastal territories of 15%. The rate level changes will become effective November 15, 2003.

At the time of preparation of this report, the Rate Bureau was preparing a homeowners rate change to be filed with the Department of Insurance. It is anticipated the actual filing will be made in late October 2003.

An ancillary function of this unit is maintaining a summary of member deviations from filed rates.

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

	<u>2002</u>	<u>2003</u>
Fire and Extended Coverage	82	85
Homeowners	196	200
Mobile Home Owner MH(C)	24	24
Mobile-Homeowners MH(F)	23	23

WORKERS COMPENSATION INSURANCE OPERATIONS

The workers compensation insurance operations of the NCRB are focused on six distinct functions.

1. Loss costs filings for voluntary business and rate filings for residual market business.
2. Administering the assigned risk program.
3. Gathering experience data and calculating experience modification.
4. Inspecting and classifying risks.
5. Gathering and maintaining policy data for every employer-policyholder in North Carolina.
6. Maintaining supporting functions for these activities.



During the period of this report there were two rate loss costs filings and two rate filings having an impact on workers compensation insurance:

2002 Loss Costs Filing

In a filing dated September 1, 2002, the Rate Bureau submitted to the Commissioner of Insurance a filing proposing an average loss costs change of 0.0% for industrial classifications and an average pure premium increase of 9.9% for the “F” codes.

On November 15, 2002, the Commissioner approved this filing. The prospective loss costs, rating values and miscellaneous values became effective April 1, 2003.

2002 Residual Market Rate Filing

On September 1, 2002, the Rate Bureau submitted to the Commissioner of Insurance a filing proposing an average increase of 2.5% in the overall premium level of the workers compensation insurance residual market.

2003 Loss Costs Filing

On August 29, 2003, the Rate Bureau filed loss costs with the Department of Insurance for an overall 8% increase to be effective April 1, 2004. At the time of this report this filing was still pending.

2003 Residual Market Rate Filing

Also on August 29, 2003, the Rate Bureau filed a residual market rate filing for an average increase of 19% to be effective April 1, 2004. The filing also continues to be pending at this time.

The Rate Bureau is the plan administrator for the North Carolina assigned risk program. This residual market mechanism assigns employers to insurance carriers for policy issuance in the event the employer is “difficult to place” and is unable to procure a policy in the standard market.

In its capacity of plan administrator the assigned risk unit processed almost 15% more applications during the year ending August 31, 2003 compared to the prior years.

	<u>2002</u>	<u>2003</u>
New Assignments	11,463	16,484
Renewal Assignments	6,474	10,156
Total Assignments	17,991	26,805

In addition, 165 policies extended coverage to North Carolina employers after having been assigned to other states.

The experience rating unit, in addition to processing almost 160,000 unit statistical reports for individual policies calculated 41,318 intrastate experience ratings, approximately 13% more than the preceding year.

	<u>2002</u>	<u>2003</u>
Experience Ratings	30,773	41,318

Another significant function of the workers compensation insurance operations is the proper classification of employers for rating purposes. During the year covered by this report 624 employer inspections were completed. Of these inspections 357 resulted in changes in the original classification.

During this period there was one employer appeal of a classification heard by the Governing Committee. In this case the Committee, after examining the information available, upheld the employer’s appeal.

In the course of gathering and maintaining policy data for all policies issued by member companies to North Carolina employers over 300,000 separate records were entered, quality checked and stored. This was a 4% increase over the preceding year.

Paper Policy Files	96,520
Electronic Policy Files	44,163
Paper Endorsements	105,105

It was a notable year in that a significant segment of data, almost 15%, was received electronically.

In the “back office” supporting these functions, considerable progress was made towards the goal of receiving all data electronically. Using software developed by a consortium of independent workers compensation bureaus, programs for assigned risk and experience ratings were brought on-line.

During the past year there were also two additional filings for changes to rules and manuals including:

1. Catastrophe Provision – Certified Terrorism Losses
Effective January 1, 2003
2. Assigned Risk Adjustment Program
Effective January 1, 2003

S U P P O R T O P E R A T I O N S

“The Bureau when created shall adopt such rules and regulations for its orderly procedure as shall be necessary for its maintenance and operation.

NCGS 58-36-5(c)

SUPPORTING OPERATIONS

In addition to the units of the Rate Bureau that are directly involved in insurance operations there are a significant number of associates involved in supporting activities.

In general, these activities are centered in four areas: Accounting, Human Resources, Information Services and Facilities Management.

The accounting unit is responsible for all of the activities and operations related to assessments, payables, receivables and payroll.

It is also in this area that expenses of the Rate Bureau are managed. The following data summarizes expenses for the Rate Bureau for comparable 2002 and 2003 periods.

	<u>2002</u>	<u>2003</u>
Salaries and Administration	2,147,306	2,260,787
Payroll Taxes	172,167	196,187
Rent	224,700	214,321
Travel	58,812	62,898
Postage	72,757	65,800
Software and Systems Maintenance	12,406	75,640
Printing and Office Supplies	68,302	69,073
Furniture and Equipment	64,553	373,251
Telephone	47,091	56,245
Group Insurance	400,984	438,074
Retirement Plan	62,971	86,941
Employees Savings Plan	92,372	117,102
Legal Expenses	977,160	854,280
Outside Services	5,113,599	5,364,196
Other Expenses	<u>113,003</u>	<u>91,920</u>
 TOTAL	 \$9,628,184	 \$10,326,716

Human Resources is responsible for hiring, training and maintaining the associates working for the Rate Bureau. Notable during this report year, a salary administration program was installed. This included revised position descriptions, salary ranges and a performance evaluation program.

Many training and educational sessions were conducted so that our associates could perform their duties more effectively. As part of this work process establishing performance standards were created or refined in many of our work units.

The Facilities Management function successfully completed remodeling the entire office. This results in a safe, secure and comfortable work environment adding to the professionalism of the overall operation.

One of the busiest units was Information Services. Their mission is maintaining the network and providing program integration for the various operating units. During the course of the past year many projects were completed. These included a rebuild of the database, the creation of a help desk, increased security, additional business recovery capability and legacy system documentation. As a result the organization moved much closer to its goal of “electronic” operations.

GENERAL MANAGER'S THOUGHTS

When I reflect back on the year, my first thoughts are about the pace of activity. This could be, in the calendar year, the first time we have filed a rate change for every line within our jurisdiction.

I also think about all of the accomplishments. Many are detailed in the preceding pages, but many don't fit easily into neat sections. For example, with the retirement of Jerry Hamrick, a true expert and fixture in North Carolina workers compensation, we were forced to significantly change those operations.



In the Information Technology unit, we did everything from rebuild the data base to create a help desk for network administration to document legacy systems to rebuild the network from the “backbone” to new cabling for all work stations.

Our Human Resources unit, in addition to the usual benefits, hiring and salary administration, had training in many areas including diversity and supervision. For the last three class cycles we have hosted CPCU classes. As many as 16 of our folks attended with many passing tests and several on their way to the designation.

In quick succession my next thought is how thankful I am for all of the help we have. I am especially thankful to our associates. They have accepted and embraced change and in many departments are quickly moving towards truly effective operations. Our goal of “today's work today” is a reality in many areas.

I am also thankful to the company members of our committees. Literally nothing can happen without them. Even with the number and length of meetings growing, our committee members continue to enthusiastically give us their time, energy, knowledge and support.

There is another group we lean on that without their help not much would happen. These are our outside counsel, experts, consultants and vendor collaborators. Our thanks to this group for sharing their knowledge and expertise.

This has been quite a year, as we look forward to the next year I am reminded of something Somerset Maugham said, “There is only one thing about which I am certain, and that is that there is very little about which one can be certain.”

Sincerely,

Ray Evans

Ray Evans
General Manager

NORTH CAROLINA RATE BUREAU

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F O R A D D I T I O N A L I N F O R M A T I O N

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