October 22, 2004

CIRCULAR LETTER TO ALL MEMBER COMPANIES

In a circular letter dated August 3, 2004, members of the Rate Bureau were advised that on the agenda for the 27th Annual Meeting would be a Governing Committee election.

The Rate Bureau’s Constitution provides that the Governing Committee shall be composed of six stock company members, six non-stock company members and two non-voting public members appointed by the Governor. The Constitution further provides that at each Annual Meeting the scheduled vacancies occurring in the Governing Committee shall be filled by the election of two stock and two non-stock companies to serve for terms of three years.

The current company members of the Governing Committee are:

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<th>Term Expires</th>
<th>Stock</th>
<th>Non-stock</th>
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<td>Integon Indemnity Insurance Corp.</td>
<td>Liberty Mutual Insurance Co.</td>
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The Constitution specifies that a member shall be eligible to serve only two consecutive terms, and, of the four members with expiring terms, Allstate Insurance Company and Auto-Owners Mutual Insurance Company will not be eligible for re-election.

In addition, St. Paul Fire & Marine Insurance Company, which recently merged with Travelers Insurance Company, creates an addition vacancy that needs to be filled.

The Chair of the Governing Committee has appointed a Nominating Committee, chaired by Allstate Insurance that proposes the following to be considered at the Annual Meeting:

1. Integon Indemnity Insurance Corporation and Liberty Mutual Insurance Company be nominated for re-election for an additional three year term.

2. That the members completing a second term and the vacancy created by the St.Paul/Travelers merger be elected from this slate of six companies, arranged by alphabetical order:

   Alliance Mutual Insurance Company (a non-stock company)
   Cincinnati Insurance Company (a stock company)
   Erie Insurance Company (a non-stock company)
   Horace Mann Insurance Company (a stock company)
   Progressive Insurance Company (a stock company)
   USAA Insurance Company (a stock company)

3. In preparing their proposal the Nominations Committee considered many factors, including a willingness to participate, the diversity of the Governing Committee as a whole, the availability of a qualified representative and member’s years of experience in North Carolina.
4. The following is some very brief data related to each of the candidate’s North Carolina business, again, in alphabetical order:

- **Alliance Mutual Insurance Company**
  - The company writes personal lines and small business accounts and is domiciled in North Carolina.

- **Cincinnati Insurance Company**
  - The company writes primarily commercial lines and is the 21st largest writer in North Carolina.

- **Erie Insurance Company**
  - The company writes personal and commercial lines and is the 11th largest insurer in North Carolina.

- **Horace Mann Insurance Company**
  - The company is primarily personal lines and is the 35th largest insurer in North Carolina.

- **Progressive Insurance Company**
  - The company writes exclusively automobile lines and, in North Carolina, is the 15th largest carrier overall and the 8th largest private passenger auto insurer.

- **USAA Insurance Company**
  - The company is primarily a personal lines carrier and is overall, the 8th largest carrier in North Carolina.

5. After appropriate motions at the Annual Meeting on Tuesday, October 26, 2004, and a brief opportunity for the candidates to speak, a majority vote of members will select the new members of the Governing Committee.

   Sincerely,

   Raymond F. Evans, Jr., CPCU

   General Manager

   RFE:lm

   G-04-3