MEMBERS PRESENT

Alliance Mutual Insurance Company
Allstate Insurance Company
   Allstate Indemnity Company
   Allstate Property & Casualty Insurance Company
   Encompass Indemnity Company
   First Colonial Insurance Company
   Northbrook Indemnity Company
American Home Assurance Company
   AIG Centennial Insurance Company
   AIG Premier Insurance Company
   AIU Insurance Company
   American General Property Insurance Company
   American International South Insurance Company
   Birmingham Fire Insurance Company of Pennsylvania
   Commerce & Industry Insurance Company
   Granite State Insurance Company
   Hartford Steam Boiler Inspection & Insurance Company
   Hartford Steam Boiler Inspection & Insurance Company of Connecticut, The
   Insurance Company of the State of Pennsylvania
   National Union Fire Insurance Company of Pittsburgh, PA
   New Hampshire Insurance Company
   Yosemite Insurance Company
Atlantic Casualty Insurance Company
   Coastal Casualty Insurance Company
Auto Owners Insurance Company
   Owners Insurance Company
Builders Mutual Insurance Company
Cincinnati Insurance Company
   Cincinnati Casualty Company
   Cincinnati Indemnity Company
Erie Insurance Company
   Erie Insurance Exchange

REPRESENTED BY

Mary Taylor
Robert Herring
Bob Blystone
Shantelle Thomas
Mary McQueen
Kevin Steele
Paul Aycock
Richard Yarbrough
Alice Hamm
Mary Pierce
Jerry Visintine
James Gron
Leigh Caudle
Government Employees Insurance Company
Central States Indemnity Company of Omaha
Cornhusker Casualty Company
Fairfield Insurance Company
GEICO General Insurance Company
GEICO Indemnity Company
General Reinsurance Corporation
General Star National Insurance Company
Genesis Insurance Company
National Indemnity Company
National Liability & Fire Insurance Company
National Reinsurance Corporation
Republic Insurance Company
United States Liability Insurance Company

Hartford Fire Insurance Company
Hartford Accident & Indemnity Company
Hartford Casualty Insurance Company
Hartford Insurance Company of the Midwest
Hartford Underwriters Insurance Company
New England Insurance Company
Property & Casualty Insurance Company of Hartford
Sentinel Insurance Company, Ltd.
Trumbull Insurance Company
Twin City Fire Insurance Company

Horace Mann Insurance Company
Horace Mann Property & Casualty Insurance Company
Teachers Insurance Company

Integon Indemnity Corporation
CIM Insurance Corporation
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
MIC General Insurance Corporation
MIC Property & Casualty Insurance Corporation
Motors Insurance Corporation
National Alliance Insurance Company
National General Assurance Company
National General Insurance Company
New South Insurance Company

Liberty Mutual Insurance Company
Bridgefield Casualty Insurance Company
Colorado Casualty Insurance Company
Employers Insurance Company of Wausau
Excelsior Insurance Company
First Liberty Insurance Corporation
Liberty Insurance Corporation

Tom McNicholas
Anthony Zuvich
Todd Martensen
Greg Carr
Art Lyon
John Ittner
Cindy Sickler
Cheryl Watts
Liberty Insurance Underwriters, Inc.
Liberty Mutual Fire Insurance Company
Liberty Mutual Mid-Atlantic Insurance Company
LM General Insurance Company
LM Insurance Corporation
LM Personal Insurance Company
LM Property & Casualty Insurance Company
Midwestern Indemnity Company
Montgomery Mutual Insurance Company
The Netherlands Insurance Company
Peerless Indemnity Insurance Company
Peerless Insurance Company
Wausau Business Insurance Company
Wausau Underwriters Insurance Company
Nationwide Mutual Fire Insurance Company
Allied Property & Casualty Insurance Company
AMCO Insurance Company
Depositors Insurance Company
Farmland Mutual Insurance Company
National Casualty Company
Nationwide Affinity Insurance Company
Nationwide Agribusiness Insurance Company
Nationwide Insurance Company of America
Nationwide Mutual Insurance Company
Nationwide Property & Casualty Insurance Company
Scottsdale Indemnity Company
Titan Indemnity Company
North Carolina Farm Bureau Mutual Insurance Company
Farm Bureau Insurance Company of North Carolina
Progressive Casualty Insurance Company
National Continental Insurance Company
Progressive American Insurance Company
Progressive Direct Insurance Company
Progressive Northern Insurance Company
Progressive Northwestern Insurance Company
Progressive Preferred Insurance Company
Progressive Premier Insurance Company of Illinois
Progressive Southeastern Insurance Company
Progressive Universal Insurance Company
United Financial Casualty Company
Sentry Casualty Company
Dairyland Insurance Company
Middlesex Insurance Company
Peak Property & Casualty Insurance Corporation
Sentry Insurance A Mutual Company
Sentry Select Insurance Company
Southern General Insurance Co.
State Automobile Mutual Insurance Company
State Automobile National Insurance Company
State Automobile Property & Casualty Insurance Company
State Farm Mutual Automobile Insurance Company
  Alan Bentley
State Farm Fire & Casualty Company
  Ray Owen
State Farm General Insurance Company
  David Stoller
The Members Insurance Company
  Jim McCafferty
Travelers Indemnity Company
  Michael Fitzgerald
  Randy Krauss
  Benjy Seagle
Athena Assurance Company
Atlantic Insurance Company
Automobile Insurance Company of Hartford, CT
Charter Oak Fire Insurance Company
Commercial Guaranty Casualty Insurance Company
Commercial Guaranty Insurance Company
Discover Property & Casualty Insurance Company
Farmington Casualty Company
Fidelity & Guaranty Insurance Company
Fidelity & Guaranty Insurance Underwriters, Inc.
Mendakota Insurance Company
Northland Casualty Company
Northland Insurance Company
Phoenix Insurance Company
Select Insurance Company
St. Paul Fire & Marine Insurance Company
St. Paul Guardian Insurance Company
St. Paul Medical Liability Insurance Company
St. Paul Mercury Insurance Company
St. Paul Protective Insurance Company
Standard Fire Insurance Company
Travco Insurance Company
Travelers Casualty & Surety Company
  Joe Schmucker
Travelers Casualty & Surety Company of America
Travelers Casualty Company of Connecticut
Travelers Casualty Insurance Company of America
Travelers Commercial Insurance Company
Travelers Commercial Casualty Company
Travelers Home & Marine Insurance Company
Travelers Indemnity Company of America
Travelers Indemnity Company of Connecticut
Travelers Personal Security Insurance Company
Travelers Property Casualty Company of America
Travelers Property Casualty Insurance Company
United States Fidelity & Guaranty Company
United Services Automobile Association
  Garrison Property & Casualty Insurance Company
  USAA Casualty Insurance Company
  USAA General Indemnity Company
Unitrin Auto and Home Insurance Company
  Ray Snyder
  Greg Spray
  Lisa Stafford
Universal Insurance Company
Zurich American Insurance Company  
American Guarantee & Liability Insurance Company  
American Zurich Insurance Company  
Assurance Company of America  
Centre Insurance Company  
Colonial American Casualty & Surety Company  
Empire Fire & Marine Insurance Company  
Farmers Insurance Exchange  
Fidelity & Deposit Company of Maryland  
Foremost Insurance Company  
Foremost Property & Casualty Insurance Company  
Foremost Signature Insurance Company  
Maryland Casualty Company  
Mid Century Insurance Company  
Northern Insurance Company of New York  
Truck Insurance Exchange  
Universal Underwriters Insurance Company  
Valiant Insurance Company

OTHERS PRESENT

Independent Insurance Agents of North Carolina  
Insurance Federation of North Carolina  
Insurance Services Office

Milliman, Inc.  
Terry Pemberton  
Young, Moore & Henderson

Staff

192 other companies participated by proxy.
The meeting convened as scheduled, Mr. Lyon of Integon Indemnity Corporation, Chairman of the Governing Committee, presiding.

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

Mr. Evans announced that there was a quorum.

1. **Annual Report**

   Mr. Evans reviewed and commented on the 2006 Annual Report, a copy of which is attached hereto. The Annual Report was approved by the members.

2. **Governing Committee Election**

   Mr. Seagle, of Travelers Indemnity Company, Chairman of the Nominating Committee which had previously been appointed by the Chairman of the Governing Committee, reported that the Nominating Committee recommends the following slate of companies for election to the Governing Committee: Allstate Insurance Company and American Home Assurance Company for the two stock company positions and State Automobile Mutual Insurance Company and State Farm Mutual Automobile Insurance Company for the two non-stock positions. The floor was then opened for additional nominations, and there were none. Following motions to close the nominations and to elect the recommended slate, the companies recommended by the Nominating Committee were elected to three-year positions on the Governing Committee.

3. **Adjournment**

   Following general comments by Mr. Lyons, there was no further business and the meeting was adjourned.

   Respectfully submitted,

   Raymond F. Evans, Jr., CPCU

   General Manager

   1/12/07
North Carolina Rate Bureau

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General Organizational Information

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

Management Contacts

Ray Evans ........................................ General Manager ......................... 919-582-1002 .... rfe@ncrb.org
Sue Taylor ........................................ Director, Workers Compensation ...... 919-582-1050 .... smt@ncrb.org
Tim Lucas ........................................ Manager, Personal Lines .............. 919-582-1021 .... ftl@ncrb.org
David Sink ....................................... Director, Finance & Administration .... 919-582-1012 .... des@ncrb.org
Vicki Godbold .................................. Director, Human Resources ........ 919-645-3170 .... vcg@ncrb.org
Jim Auman ....................................... Director, Information Technology ...... 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.
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
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;
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 “framework” 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.
## Automobile Committee

<table>
<thead>
<tr>
<th>Member</th>
<th>Representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allstate Insurance Co</td>
<td>Steven D. Armstrong *</td>
</tr>
<tr>
<td>GEICO Indemnity Company</td>
<td>Tom McNicholas</td>
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<tr>
<td>Hartford Fire Insurance Co</td>
<td>Jamie Mathews</td>
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<tr>
<td>Integon Indemnity Corporation</td>
<td>Art Lyon</td>
</tr>
<tr>
<td>Liberty Mutual Insurance Co</td>
<td>John Ittner</td>
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<tr>
<td>Lumbermens Mutual Casualty Co</td>
<td>Amy Brown</td>
</tr>
<tr>
<td>Nationwide Mutual Ins. Co</td>
<td>Todd Davis</td>
</tr>
<tr>
<td>NC Farm Bureau Mutual Insurance Co</td>
<td>Roger N. Batdorff</td>
</tr>
<tr>
<td>Progressive Casualty Insurance Co</td>
<td>Patricia D’Ambrosia</td>
</tr>
<tr>
<td>State Farm Mutual Automobile Insurance Co</td>
<td>Kathy Popejoy</td>
</tr>
<tr>
<td>The Travelers</td>
<td>Michael Fitzgerald</td>
</tr>
<tr>
<td>United Services Automobile Association</td>
<td>Lisa Sukow *</td>
</tr>
</tbody>
</table>

* Chair

## Personal Auto Policy Subcommittee

<table>
<thead>
<tr>
<th>Member</th>
<th>Representative</th>
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<tbody>
<tr>
<td>Allstate Insurance Company</td>
<td>Christy Hradek *</td>
</tr>
<tr>
<td>Nationwide Mutual Ins. Co</td>
<td>Doreen H. Vaughan</td>
</tr>
<tr>
<td>State Farm Mutual Automobile Ins Co</td>
<td>Kevin J. Nicklas</td>
</tr>
<tr>
<td>Young, Moore &amp; Henderson</td>
<td>R. Michael Strickland *</td>
</tr>
</tbody>
</table>

* Chair

## Subcommittee on Classification & Subclassification Plans

<table>
<thead>
<tr>
<th>Member</th>
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<tbody>
<tr>
<td>Allstate Insurance Co</td>
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<td>John Ittner</td>
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<tr>
<td>NC Farm Bureau Mutual Insurance Co</td>
<td>Roger N. Batdorff</td>
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<tr>
<td>Nationwide Mutual Insurance Co</td>
<td>Daniel Myers</td>
</tr>
<tr>
<td>Progressive Casualty Insurance Co</td>
<td>Patricia D’Ambrosia</td>
</tr>
<tr>
<td>State Farm Mutual Automobile Ins. Co</td>
<td>Kathy Popejoy *</td>
</tr>
</tbody>
</table>

* Chair

## Property Committee

<table>
<thead>
<tr>
<th>Member</th>
<th>Representative</th>
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<tbody>
<tr>
<td>Allstate Insurance Co</td>
<td>Shantelle Thomas</td>
</tr>
<tr>
<td>Amica Insurance</td>
<td>Tom Goodale</td>
</tr>
<tr>
<td>The Erie Insurance Group</td>
<td>Ronnie Chamberlain</td>
</tr>
<tr>
<td>Kemper National Insurance Companies</td>
<td>Amy Brown</td>
</tr>
<tr>
<td>NC Farm Bureau Mutual Ins. Co</td>
<td>Bob Tart</td>
</tr>
<tr>
<td>Nationwide Mutual Ins. Co</td>
<td>Todd Davis</td>
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<tr>
<td>Penn National Insurance Companies</td>
<td>Chuck Uckele</td>
</tr>
<tr>
<td>State Farm Fire &amp; Casualty Co</td>
<td>Bob Messier *</td>
</tr>
<tr>
<td>Travelers Property &amp; Casualty Company</td>
<td>Randy Krauss</td>
</tr>
<tr>
<td>USAA</td>
<td>Joe Schmucker *</td>
</tr>
</tbody>
</table>

* Chair
### Property Forms Subcommittee

<table>
<thead>
<tr>
<th>Committee Member Insurers</th>
<th>Representative</th>
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<tbody>
<tr>
<td>Allstate Insurance Co</td>
<td>Bob Lorch</td>
</tr>
<tr>
<td>American Bankers Insurance Co of Florida</td>
<td>Dina Olsen</td>
</tr>
<tr>
<td>Foremost Insurance Co</td>
<td>David J. Kelly</td>
</tr>
<tr>
<td>Kemper Auto and Home</td>
<td>Susan Fiorentino</td>
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<tr>
<td>Modern Insurance Group</td>
<td>Kevin Randall</td>
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<tr>
<td>NC Farm Bureau Mutual Ins. Co</td>
<td>Bob Tart</td>
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<tr>
<td>Nationwide Mutual Fire Ins Co</td>
<td>Doreen H. Vaughan *</td>
</tr>
<tr>
<td>Nationwide Mutual Insurance Co</td>
<td>Richard C. Jenkins</td>
</tr>
<tr>
<td></td>
<td>* Chair</td>
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### Property Rating Subcommittee

<table>
<thead>
<tr>
<th>Committee Member Insurers</th>
<th>Representative</th>
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<tbody>
<tr>
<td>Allstate Insurance Co</td>
<td>Shantelle Thomas *</td>
</tr>
<tr>
<td>American Modern Insurance Group</td>
<td>Mark E. Carroll</td>
</tr>
<tr>
<td>Foremost Insurance Company</td>
<td>David J. Kelly</td>
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<tr>
<td>NC Farm Bureau Mutual Insurance Co</td>
<td>Roger N. Batdorff</td>
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<tr>
<td>Nationwide Mutual Ins. Co</td>
<td>Todd Davis</td>
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<tr>
<td>State Farm Fire &amp; Casualty Co</td>
<td>Susan Cleaver</td>
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<tr>
<td>Travelers Property &amp; Casualty Co</td>
<td>Randy Krauss</td>
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<tr>
<td>United Services Automobile Association</td>
<td>Christopher C. Swetonic</td>
</tr>
<tr>
<td></td>
<td>* Chair</td>
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### Task Force on Hurricane Mitigation

<table>
<thead>
<tr>
<th>Committee Member Insurers</th>
<th>Representative</th>
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<tbody>
<tr>
<td>Allstate Insurance Co</td>
<td>Shantelle Thomas</td>
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<tr>
<td>State Farm Fire &amp; Casualty Co</td>
<td>Susan Cleaver *</td>
</tr>
<tr>
<td>Travelers Property &amp; Casualty Co</td>
<td>Randy Krauss</td>
</tr>
<tr>
<td>Travelers Property &amp; Casualty Co</td>
<td>Rebecca Raynor</td>
</tr>
<tr>
<td>United Services Automobile Association</td>
<td>Christopher C. Swetonic</td>
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<tr>
<td></td>
<td>* Chair</td>
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</table>

### Workers Compensation Committee

<table>
<thead>
<tr>
<th>Committee Member Insurers</th>
<th>Representative</th>
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</thead>
<tbody>
<tr>
<td>American Home Assurance Co</td>
<td>Mary L. McQueen</td>
</tr>
<tr>
<td>Builders Mutual Insurance Co</td>
<td>Jerry Visintine</td>
</tr>
<tr>
<td>Harleysville Mutual Insurance Co</td>
<td>Robert Johnson</td>
</tr>
<tr>
<td>Hartford Accident &amp; Indemnity Co</td>
<td>Giggy Martindale</td>
</tr>
<tr>
<td>Key Risk Insurance Co</td>
<td>John Godfrey</td>
</tr>
<tr>
<td>Liberty Mutual Insurance Co</td>
<td>Cheryl B. Watts *</td>
</tr>
<tr>
<td>Maryland Casualty Co (Zurich)</td>
<td>Paul Ziegler</td>
</tr>
<tr>
<td>NC Farm Bureau Mutual Insurance Co</td>
<td>Roger N. Batdorff</td>
</tr>
<tr>
<td>Ohio Casualty Insurance Co</td>
<td>Ray Hinnant</td>
</tr>
<tr>
<td>PA National Mutual Casualty Insurance Co</td>
<td>Alan Stowe</td>
</tr>
<tr>
<td>St. Paul/Travelers Insurance Co</td>
<td>Jeffrey W. Schmidt</td>
</tr>
<tr>
<td></td>
<td>* Chair</td>
</tr>
</tbody>
</table>
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.
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
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
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:
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 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

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.
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.

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%
• 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
Director, Workers Compensation
Workers Compensation Organizational Chart

General Manager
Ray Evans

Director
Workers Compensation
Sue Taylor

Manager
Operations
Betty Hurst

Manager
Data Analysis
Fred Hoerl

Manager
Operations
Delisa Fairley

Supervisor
Information Center
Amy Tart

Supervisor
WC Underwriting Services
Karen Byrd

Supervisor
Assigned Risk
Michele Lynch

Shared Resources

Director
Finance & Administration
David Sink

Director
Human Resources
Vicki Godbold

Director
Information Technology
Jim Auman
<div class="html_content">

# BALANCE SHEET

**Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>August 31, 2005</th>
<th>August 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash (Checking Account)</td>
<td>$1,958,715</td>
<td>$1,332,104</td>
</tr>
<tr>
<td>Restricted Cash &amp; Investments</td>
<td>569,480</td>
<td>571,754</td>
</tr>
<tr>
<td>Assessments Receivable</td>
<td>203,643</td>
<td>466,619</td>
</tr>
<tr>
<td>Other Assets</td>
<td>13,718</td>
<td>204,665</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$2,745,556</strong></td>
<td><strong>$2,575,142</strong></td>
</tr>
</tbody>
</table>

**Liabilities & Fund Equity**

<table>
<thead>
<tr>
<th>Description</th>
<th>August 31, 2005</th>
<th>August 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refund to Carriers Payable</td>
<td>$50,098</td>
<td>$50,098</td>
</tr>
<tr>
<td>Retiree Insurance Payable – Restricted</td>
<td>569,480</td>
<td>571,754</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>(1,183)</td>
<td>(2,752)</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$618,395</strong></td>
<td><strong>$619,100</strong></td>
</tr>
<tr>
<td>Fund Equity</td>
<td>$2,127,161</td>
<td>$1,956,042</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Fund Equity</strong></td>
<td><strong>$2,745,556</strong></td>
<td><strong>$2,575,142</strong></td>
</tr>
</tbody>
</table>

# INCOME STATEMENT

**Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>August 31, 2005</th>
<th>August 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessments Income</td>
<td>$10,344,767</td>
<td>$10,619,970</td>
</tr>
<tr>
<td>Membership Fees Income</td>
<td>701,500</td>
<td>704,000</td>
</tr>
<tr>
<td>Other Income</td>
<td>29,316</td>
<td>321,235</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>$11,075,583</strong></td>
<td><strong>$11,645,205</strong></td>
</tr>
</tbody>
</table>

**Expenses**

<table>
<thead>
<tr>
<th>Description</th>
<th>August 31, 2005</th>
<th>August 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, Employee Relations &amp; Taxes</td>
<td>$3,516,171</td>
<td>$3,773,533</td>
</tr>
<tr>
<td>Legal, Consulting &amp; Other Outside Services</td>
<td>5,982,869</td>
<td>6,691,230</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>822,223</td>
<td>906,654</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$10,321,263</strong></td>
<td><strong>$11,371,417</strong></td>
</tr>
</tbody>
</table>

**Net Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>August 31, 2005</th>
<th>August 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>$754,320</td>
<td>$273,788</td>
</tr>
</tbody>
</table>

</div>
Shared Resources

David Sink
Director, Finance & Administration

Vicki Godbold
Director, Human Resources

Jim Auman
Director, Information Technology
Finance & Administration
Finance & Administration - 2006

- Accounting System Enhancements for IT Initiatives and System Developments
- Management Reporting and Budget Process Improvements
- Phone System Enhancements for WC Information Center
- Fixed Asset System (Inventory)
- Cross Training of Accounting Staff
Finance & Administration - 2006

- Business Recovery & Process Documentation
- Outsourcing of Payroll Processing
- Facility Maintenance & Repairs
- Operating Expenses through September
  - $8,262,000 (94.7% Budget)
  - 4.96% higher than 2005
  - Projected to be within 2006 budget
- 2004 Reapportionment - $427,000 Returned to Member Companies
Finance & Administration - 2007

- Cost Containment and Control
- Maintain Accounting System Interfaces
- Internal Space Reallocation
- Outsourcing of Time & Attendance System
- Evaluation of Financial Methods & Procedures
Personal Lines
Automobile Accomplishments

• Settled 2005 Private Passenger Auto Rate Case
  – Overall: Filed +9.6%  Settled -2.5%
    • Liability: Filed +17.9  Settled +5.1%
    • Physical Damage: Filed -1.4%  Settled -12.0%
    • Motorcycle Liability: Filed -1.5%  Settled -6.5%
  – Effective May 15, 2006

• Settled 2006 Private Passenger Auto Rate Filing
  – Overall: Filed +7.4%  Settled -2.9%
    • Liability: Filed +15.7  Settled +4.0%
    • Physical Damage: Filed -5.0%  Settled -12.6%
    • Motorcycle Liability: Filed +2.2%  Settled 0.0%
  – Effective November 15, 2006
Automobile Accomplishments

• Personal Auto Policy Revisions
  – Primary changes to Physical Damage Coverage
    • Electronic Equipment
    • Customized Equipment
    • Loss Payee
    • Fraud or Material Misrepresentation
  – Effective May 1, 2006

• Revised Motorcycle Relativities
  – Went from two classes of cubic Centimeters to four
  – Effective October 1, 2006
Automobile Accomplishments

• Revised Inexperienced Operator Rule
  – Eliminated presumption of being inexperienced without documentation
  – Experience only from US, Canada and Puerto Rico allowed
  – Effective October 1, 2006

• Revised Automobile Manual Rule for Optional Rating Characteristics
  – Introduced as a result of a change in DOI interpretation of Statutes
  – Rule designed to allow member companies to continue to “deviate” on rates
  – Approved by DOI after Senate Bill filed in Legislature
Property Accomplishments

• Settled 2006 Dwelling Rate Filing
  – Overall: Filed +32.9%  Settled +12.1%
• 2006 Homeowners Rate Filing
  – Will be discussed at the next Governing Committee meeting
  – Hope to implemented by March 1, 2007
• Developed Notice of Right of Mediation as a result of SB 277
• Revised Homeowners, Dwelling and Mobilehomeowners Manual Rules for Optional Rating Characteristics
Goals for 2007

- 2007 Private Passenger Auto Rate Filing
  - Make on February 1, 2007 with proposed effective date of October 1, 2007
- 2007 Mobile Homeowners Rate Filing
  - Have indications by April 1, 2007
- 2007 Dwelling Rate Filing
  - Have indications by June 1, 2007
- 2007 Homeowners Rate Filing
  - Have indications by September 1, 2007
- Re-write the Industry Data Collection System
- Reduce Expenses
Workers Compensation

Annual Meeting 2006
Mission Statement

• To continue to be an efficient data collection operation that proactively services the member companies and works closely with the supporting organizations.

• To continue to improve electronic processing capabilities for accuracy and efficiency.

• To continue to develop the staff of the department to become more effective in their jobs so they can assume positions of increased responsibility.
2006 Focus

- Data Quality
- Information Technology
2006 Accomplishments

- ManageAR

**Percentage of Agent MAR Applications**

<table>
<thead>
<tr>
<th>Month</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb</td>
<td>0%</td>
</tr>
<tr>
<td>Mar</td>
<td>5%</td>
</tr>
<tr>
<td>Apr</td>
<td>10%</td>
</tr>
<tr>
<td>May</td>
<td>15%</td>
</tr>
<tr>
<td>June</td>
<td>20%</td>
</tr>
<tr>
<td>July</td>
<td>25%</td>
</tr>
<tr>
<td>Aug</td>
<td>30%</td>
</tr>
<tr>
<td>Sep</td>
<td>35%</td>
</tr>
</tbody>
</table>

Advantage - Agent/Carrier

Improvement in Processing Time by 29%
2006 Accomplishments

- ManageUSR

Advantage - Carrier

No waiting for hard copy report
Closely monitor accuracy of unit stat data

Committed to Excellence
2006 Accomplishments

- Increase in Electronic Submission of Policy Data
  - Currently at 74%

**Advantage - Agent/Carrier**

Reduced annual cost of processing by more than $200,000
Report coverage information to NCIC more timely
2006 Accomplishments

• Appointment of Dispute Resolution Specialist

Advantage - Carrier/ Employer/ Agent

More timely resolution of complaints before they reach dispute status
2006 Accomplishments

• Compliance Letter Enhancement

Advantage - Carrier/Agent

Prevents risks not in good faith from entering plan.
2006 Accomplishments

WORKERS COMPENSATION FILINGS

• Loss Costs for Voluntary
  - Filed 12.4%
  - Settled 7.3%

• Rates for Assigned Risk
  - Filed 9.8% (adjusted to 8.6%)
  - Settled 7.6%
  - Increase in Expense Constant to $250
Assigned Risk Market - NC

- New average premium is $1800
- Policy year 2005 operating loss - $30 Million
- 67% of policies < $999 in premium size
- “If Any” policies = 46%
2007 OUTLOOK
2007 Outlook

- ManageAR Phase II
- Take Out Credit Automation
- WC Ratings
- Servicing Carrier Bid Process
- Spectrum Improvements
- Website Improvement
- Evaluation of a North Carolina “VCAP” Like Program
2007 Governance

• WC Committee Chair – Travelers
• WC Committee Co-Chair – Key Risk

Thank you to Cheryl Watts of Liberty Mutual for her leadership as Chair of the WC Committee 2005-2006