September 1, 2000

TWENTY-THIRD ANNUAL REPORT

This Report covers the activities of the North Carolina Rate Bureau during the period from September 1, 1999 through August 31, 2000.

ORGANIZATION

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

GOVERNING COMMITTEE

The following member insurance companies, elected in accordance with the Constitution of the Rate Bureau, were serving on the Governing Committee as of August 31, 2000:

Stock

- Allstate Insurance Company
- Great American Insurance Company
- Hartford Fire Insurance Company
- Integon General Insurance Corporation
- Royal Insurance Company of America
- St. Paul Fire & Marine Insurance Company

Non-Stock

- Auto-Owners Insurance Company
- Harleysville Mutual Insurance Company
- Liberty Mutual Insurance Company
- NC Farm Bureau Mutual Insurance Company
- State Automobile Mutual Insurance Company
- State Farm Mutual Automobile Insurance Company

Mr. Max Offerman of Cary, North Carolina served as a non-voting public member of the Governing Committee during the period covered by this Report.

During the Twenty-Second Annual Meeting held October 20, 1999, Great American Insurance Company, St Paul Fire & Marine Insurance Company, State Automobile Mutual Insurance Company and State Farm Mutual Automobile Insurance Company were elected as members of the Governing Committee for three-year terms.

The Governing Committee met seven times during the year, including three telephone conferences. Integon General Insurance Corporation served as Chairman of the Governing Committee during the year. North Carolina Farm Bureau Mutual Insurance Company served as Vice-Chairman.

MEMBERSHIP

Membership in the North Carolina Rate Bureau is required of all companies licensed in North Carolina to write any of the coverages subject to the jurisdiction of the Rate Bureau.
During the period covered by this Report there were eighteen additions to the membership. These were the following companies:

- American Compensation Insurance Company
- AmGuard Insurance Company
- B C S Insurance Company
- Companion Commercial Insurance Company
- Everest Reinsurance Company
- Federated Service Insurance Company
- Florida Physicians Insurance Company
- Front Royal Insurance Company
- Highmark Casualty Insurance Company
- Mendakota Insurance Company
- National Trust Insurance Company
- NorGuard Insurance Company
- Ohio Security Insurance Company
- Pacific Specialty Insurance Company
- Rockwood Casualty Insurance Company
- Service Insurance Company
- T. H. E. Insurance Company
- Workmen=s Auto Insurance Company

The following companies withdrew from membership during the year covered by this Report:

- Gulf Underwriters Insurance Company
- L M I Insurance Company
- United Equitable Insurance Company

As of August 31, 2000 there were 640 member companies - 599 licensed to write the automobile coverages, 587 licensed to write the residential property coverages and 480 licensed to write workers compensation insurance.

**CONSTITUTIONAL COMMITTEES**

The Constitution provides that the Governing Committee shall establish certain standing committees which shall have the authority, duties and functions as provided in Article IX of the Constitution and which shall have independent power to authorize actions of the Rate Bureau as delegated by the Governing Committee. Following are the four standing committees which served during the year ended August 31, 2000:

**Automobile Committee**
- Allstate Insurance Company
- Hartford Fire Insurance Company
- Integon General Insurance Corporation
- Liberty Mutual Insurance Company
- Lumbermens Mutual Casualty Company
- Nationwide Mutual Insurance Company
- NC Farm Bureau Mutual Insurance Company
- State Farm Mutual Automobile Insurance Co
- Travelers Indemnity Company

**Property Committee**
- Allstate Insurance Company
- Lumbermens Mutual Casualty Company
- Nationwide Mutual Insurance Company
- NC Farm Bureau Mutual Insurance Company
- Pennsylvania National Mutual Casualty Ins Co
- Royal Insurance Company of America
- The Shelby Insurance Company
- State Capital Insurance Company
- State Farm Fire & Casualty Company

**Workers Compensation Committee**
- Builders Mutual Insurance Company
- Harleysville Mutual Insurance Company
- Hartford Accident & Indemnity Company
- Liberty Mutual Insurance Company
- Maryland Casualty Company
- NC Farm Bureau Mutual Insurance Company

**Legal Committee**
- Liberty Mutual Insurance Company
- Nationwide Mutual Insurance Company
- St. Paul Fire & Marine Insurance Company
- State Farm Mutual Automobile Insurance Co
- Travelers Indemnity Company
Ohio Casualty Insurance Company
Pennsylvania National Mutual Casualty Ins Co
Royal Insurance Company of America
St. Paul Fire and Marine Insurance Company
Travelers Insurance Company

The Automobile, Property and Workers Compensation Committees are concerned with all matters pertaining to the respective coverages subject to the Bureau's jurisdiction, including the development of classifications, rules, rates, rating plans, policy forms and policy provisions; the administration of such rating systems as may become effective pursuant to laws; and the furnishing, upon request, of pertinent information relating to classifications, rules, rates, rating plans, policy forms and policy provisions to member companies. The Legal Committee has the responsibility of assisting the Governing Committee, the standing committees and the Rate Bureau Staff and Counsel in legal matters.

The Automobile Committee met five times during the year, including four telephone conferences. Allstate Insurance Company served as Chairman and Lumbermens Mutual Casualty Company served as Vice-Chairman of that Committee throughout the year covered by this Report.

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

The Workers Compensation Committee met three times during the year, including one telephone conference. During the year covered by this Report, Travelers Insurance Company was elected as Chairman and Liberty Mutual Insurance Company was elected as Vice-Chairman of that Committee.

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

**LEGISLATION**

With respect to the Rate Bureau’s operations and lines of insurance subject to the Rate Bureau’s jurisdiction, the 2000 Session of the General Assembly of North Carolina enacted the following legislation:

**HB 1854** - Sets the insurance regulatory charge at 7% of the premium tax for the 2000 calendar year. This Bill was ratified on July 11, 2000.

**AUTOMOBILE INSURANCE ACTIVITIES**

The following automobile insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2000:

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1, 2000</td>
<td>Personal Auto Policy Program - Amendatory Endorsement Endorsement NC 00 15 (Ed. 8-99)</td>
</tr>
</tbody>
</table>
Rate Revisions

The Twenty-Second Annual Report dated September 1, 1999 detailed developments to that date in connection with private passenger automobile insurance rate filings submitted by the Rate Bureau on February 1, 1994, May 1, 1995, April 1, 1996 and March 5, 1999.

Following lengthy negotiations, the Rate Bureau and the Commissioner of Insurance agreed to settle each of the outstanding rate cases. The 1994 and 1996 cases had been involved in litigation and in each case member companies had been advised by the Rate Bureau to establish escrow accounts because the Rate Bureau had instructed member companies to implement rates higher than those approved by the Commissioner of Insurance. The Commissioner signed a Settlement Agreement and Consent Order in connection with each of the contested rate cases on March 9, 2000.

Under the terms of the Settlement Agreement and Consent Order:

- An overall rate reduction of 8.5% was approved in connection with the 1994 rate case and member companies were required to issue refunds of premium and interest for each policy subject to the implemented rates. Instructions and procedures for processing premium refunds were approved by the Governing Committee and the Commissioner of Insurance and distributed to member companies on March 15, 2000.

- The rates implemented by the Rate Bureau in connection with the 1996 rate case were approved. All amounts subject to the escrow requirements which had been collected, including interest, were released to member insurance companies.

- An overall rate reduction of 9.25%, applicable to policies effective on or after September 1, 2000, was approved as a result of the 1999 filing.

Deviations

As of August 31, 2000, there were 195 member companies with approved rate deviations applicable to insurance for non-fleet private passenger automobiles, up from 190 one year ago. Eleven companies' deviations applied to physical damage coverages only, 175 companies' deviations applied to both the liability and physical damage coverages and 11 companies had a liability only deviation.

Appeals By Insureds

The Staff conducted 27 hearings during the year on appeals by insureds to the Rate Bureau under the provisions of G.S. 58-36-1(2). All cases involved disputed assignment of "points" under the Safe Driver Insurance Plan. Staff sustained the carrier's rating in 20 of the cases and ruled that the carrier had incorrectly interpreted the rules of the Safe Driver Insurance Plan in 7 cases.

Legislation

The 2000 Session of the General Assembly of North Carolina did not enact any legislation that affects automobile insurance coverages subject to the Rate Bureau=s jurisdiction.
PROPERTY INSURANCE ACTIVITIES

The following property insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2000:

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2, 1999</td>
<td>Homeowners Enhancement Policy Program - Specified Additional Amount of Insurance for Coverage A - Dwelling</td>
</tr>
<tr>
<td>February 1, 2000</td>
<td>Homeowners Policy Program - Multi-Line Discount Endorsement HO 32 45 10 99</td>
</tr>
<tr>
<td>December 1, 2000</td>
<td>Homeowners Enhancement Policy Program - Special Provisions - North Carolina Endorsement HE 32 32 05 00</td>
</tr>
</tbody>
</table>

Deviations

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

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire and Extended Coverage</td>
<td>78</td>
<td>83</td>
</tr>
<tr>
<td>Homeowners</td>
<td>206</td>
<td>210</td>
</tr>
<tr>
<td>Mobile Home Owner MH(C)</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Mobile-Homeowners MH(F)</td>
<td>22</td>
<td>22</td>
</tr>
</tbody>
</table>

Legislation

The 2000 Session of the General Assembly of North Carolina enacted the following legislation that affects property insurance coverages subject to the Rate Bureau=s jurisdiction:

HB 1696 - Authorizes the Commissioner of Insurance to establish and modify public protection districts for all rural areas and cities with populations of 100,000 or fewer. This Bill became effective on its July 11, 2000 ratification date.

WORKERS COMPENSATION INSURANCE ACTIVITIES

The following workers compensation insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2000:
<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>U-1355</td>
<td>WCSP Pension Table Revisions</td>
<td>April 1, 2000</td>
</tr>
<tr>
<td>B-1359(NC)</td>
<td>Elimination or Enhancement of Selected Basic Manual Classifications and Basic Manual Classification Advisory Notes</td>
<td>April 1, 2000</td>
</tr>
<tr>
<td>B-1361</td>
<td>Basic Manual Updates of Selected Rules &amp; References</td>
<td>April 1, 2000</td>
</tr>
<tr>
<td>B-1362</td>
<td>Code 5551 - Roofing - Amended Phraseology</td>
<td>July 1, 2000</td>
</tr>
<tr>
<td>B-1363</td>
<td>Air Carrier Classifications - Amended Phraseologies</td>
<td>July 1, 2000</td>
</tr>
<tr>
<td>B-1365</td>
<td>2000 Update to Retrospective Rating Plan Parameters</td>
<td>July 1, 2000</td>
</tr>
<tr>
<td>B-1366</td>
<td>Revisions to Admiralty and Federal Employers’ Liability Act Classifications</td>
<td>July 1, 2000</td>
</tr>
</tbody>
</table>

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

**Rate Revisions**

(1) **September 1, 1999 Loss Costs Filing**
On September 1, 1999, the Rate Bureau submitted to the Commissioner of Insurance a filing that proposed an average loss costs increase of 3.4% for the industrial codes and an average pure premium decrease of 25.0% for the AF@ codes.

On October 18, 1999, the Commissioner of Insurance signed a Settlement Agreement and Consent Order which approved an average 0.0% change in the industrial codes loss costs. Prospective loss costs, rating values and miscellaneous values became effective April 1, 2000.

(2) **September 1, 1999 Residual Market Rate Filing**
On September 1, 1999, the Rate Bureau submitted to the Commissioner of Insurance a filing that proposed an average increase of 3.6% in the overall premium level of the workers compensation insurance residual market for the industrial codes and an overall premium decrease of 24.8% for the AF@ codes.

On October 18, 1999, the Commissioner of Insurance signed a Settlement Agreement and Consent Order which approved a premium level change of 0.0% for the industrial codes. Revised rates, rating values and miscellaneous values became effective April 1, 2000.

**Appeals by Insureds**

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

**Field and Office Service**

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

<table>
<thead>
<tr>
<th></th>
<th>Year Ended August 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
</tr>
<tr>
<td><strong>Inspection Program:</strong></td>
<td></td>
</tr>
<tr>
<td>Inspection reports processed</td>
<td>649</td>
</tr>
<tr>
<td>Number in agreement with carriers' classifications</td>
<td>221</td>
</tr>
<tr>
<td>Number in disagreement with carriers' classifications</td>
<td>428</td>
</tr>
<tr>
<td><strong>Rating:</strong></td>
<td></td>
</tr>
<tr>
<td>Intrastate experience ratings</td>
<td>37,320</td>
</tr>
<tr>
<td><strong>Policy Review:</strong></td>
<td></td>
</tr>
<tr>
<td>Policies received</td>
<td>127,755</td>
</tr>
<tr>
<td>Endorsements received</td>
<td>100,458</td>
</tr>
<tr>
<td>Cancellations/Reinstatements</td>
<td>51,199</td>
</tr>
</tbody>
</table>

In accordance with previously established procedures, the Rate Bureau continued to update the coverage records of the North Carolina Industrial Commission upon receipt of policy information pages, renewal certificates, endorsements, cancellation notices and reinstatement notices. For many years coverage was updated via terminals directly on-line with the Industrial Commission database. During February, 2000, Spectrum, a customized software product designed to automate many of the activities of the Bureau, became operational. Currently, coverage information and updates are loaded into Spectrum and transmitted to the Industrial Commission via a nightly batch transaction.

**Workers Compensation Insurance Plan**

In accordance with the provisions of the North Carolina Workers Compensation Insurance Plan 12,756 risks were assigned by the Bureau during the year ended August 31, 2000. There were 6,416 new assignments, 6,317 renewals and 23 risks extended North Carolina coverage after having been assigned in another State. During the year ended August 31, 1999, the Bureau processed 14,971 new, renewal and supplementary assignments.

**Legislation**

The 2000 Session of the General Assembly of North Carolina did not enact any legislation that affects the workers compensation insurance activities of the Rate Bureau.

**OPERATING EXPENSES**

Following is a summary of the Rate Bureau's operating expenses paid during the twelve months ended August 31, 1999 and August 31, 2000:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Administration</td>
<td>$1,779,945</td>
<td>$1,852,682</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>135,637</td>
<td>142,556</td>
</tr>
<tr>
<td>Rent</td>
<td>223,657</td>
<td>216,848</td>
</tr>
<tr>
<td>Travel</td>
<td>51,133</td>
<td>51,186</td>
</tr>
<tr>
<td>Postage</td>
<td>52,174</td>
<td>62,411</td>
</tr>
<tr>
<td>Software and Systems Maintenance</td>
<td>43,371</td>
<td>22,686</td>
</tr>
</tbody>
</table>
The 2000 expenses increased approximately 5.83% over the 1999 expenses.

CONCLUSION

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

This is my last annual report as General Manager of the Rate Bureau, since I have decided to retire after serving more than 33 years on the staff of the Bureau and its predecessor organizations. Raymond F. Evans, Jr. will become General Manager effective November 1, 2000.

Respectfully submitted,

John W. Watkins

General Manager