

MINUTES OF THE TWENTY-SEVENTH ANNUAL MEETING OF THE NORTH
CAROLINA RATE BUREAU HELD AT THE GRANDOVER RESORT AND CONFERENCE
CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA
OCTOBER 26, 2004

Allstate Insurance Company	Bob Blystone
Allstate Indemnity Company	
Northbrook Indemnity Company	
American Home Assurance Company	Mary McQueen
AIU Insurance Company	
American International South Insurance Company	
Birmingham Fire Insurance Company of Pennsylvania	
Commerce & Industry Insurance Company	
Granite State Insurance Company	
Insurance Company of the State of Pennsylvania	
National Union Fire Insurance Company	
New Hampshire Insurance Company	
Atlantic Casualty Insurance Company	Richard Yarbrough
Auto Owners Insurance Company	Mary Pierce
Owners Insurance Company	
Builders Mutual Insurance Company	Charmaine German
Erie Insurance Company	Ronnie Chamberlain
Erie Insurance Exchange	
Farmers Insurance Exchange	John Bond
Mid Century Insurance Company	
Truck Insurance Exchange	
Government Employees Insurance Company	Frankie Silva
GEICO General Insurance Company	Alicia Bowen
GEICO Indemnity Company	Tom McNicholas
Hartford Accident & Indemnity Company	Todd Martensen
Hartford Casualty Insurance Company	
Hartford Fire Insurance Company	
Hartford Insurance Company of 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	Greg Carr
Horace Mann Property & Casualty Insurance Company	
Teachers Insurance Company	
Integon Indemnity Corporation	Art Lyon
GMAC Direct Insurance Company	
GMAC Insurance Company Online, Inc.	
Integon Casualty Insurance Company	
Integon Indemnity Corporation	

Integon National Insurance Company	
Integon Preferred Insurance Company	
Integon Specialty Insurance Company	
New South Insurance Company	
Key Risk Insurance Company	John Godfrey
Liberty Mutual Insurance Company	Cheryl Watts
First Liberty Insurance Corporation	
Liberty Insurance Corporation	
Liberty Mutual Fire Insurance Company	
LM General Insurance Company	
LM Insurance Corporation	
LM Personal Insurance Company	
LM Property & Casualty Insurance Company	
Nationwide Mutual Insurance Company	Dave Gettles
Farmland Mutual Insurance Company	Amy Powell
Nationwide Affinity Insurance Company	
Nationwide Agribusiness Insurance Company	
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
North Carolina Farm Bureau Mutual Insurance Company	Roger Batdorff
Farm Bureau Insurance of North Carolina, Inc.	Steve Carroll
Pennsylvania National Mutual Casualty Insurance Company	Alan Stowe
Penn National Security Insurance Company	
Progressive Casualty Insurance Company	Andrew Rose
National Continental Insurance Company	Patricia D'Ambrosia
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	Eric Schauer
American & Foreign Insurance Company	Vernon Willis
Connecticut Indemnity Company	
Fire & Casualty Insurance Company of CT	
Globe Indemnity Company	
Grocers 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	
Saint Paul Fire & Marine Insurance Company	Benjy Seagle
Athena Assurance Company	
Discover Property & Casualty Insurance Company	
Fidelity & Guaranty Insurance Underwriters	
Fidelity & Guaranty Insurance Company	
St. Paul Guardian Insurance Company	
St. Paul Medical Liability Insurance Company	
St. Paul Mercury Insurance Company	

St. Paul Protective Insurance Company	
United States Fidelity & Guaranty Company	
State Automobile Mutual Insurance Company	Wes Florence
State Automobile National Insurance Company	
State Automobile Property & Casualty Insurance Company	
State Farm Mutual Automobile Insurance Company	Terry Pemberton
State Farm Fire & Casualty Company	Bob Messier
State Farm General Insurance Company	Jerry King
	David Stoller
Southern General Insurance Company	Gerald Willis
Stonewood Insurance Company	Tee Stephenson
USAA General Indemnity Company	
Travelers Indemnity Company	Benjy 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 of America	
Travelers Casualty Insurance Company of America	
Travelers Casualty Company of Connecticut	
Travelers Casualty & Surety Company	
Travelers Commercial Casualty Company	
Travelers Commercial Insurance Company	
Travelers Home & Marine Insurance Company	
Travelers Indemnity Company of Connecticut	
Travelers Indemnity Company of America	
Travelers Property Casualty Company of America	
Travelers Insurance Company	
Travelers Personal Security Insurance Company	
Travelers Property Casualty Insurance Company	
United Services Automobile Association	Joe Schmucker
USAA Casualty Insurance Company	
Universal Insurance Company	Greg Spray
Zurich American Insurance Company	Joseph 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

BB&T Insurance Services
 Guest
 Insurance Services Office
 Milliman, Inc.

REPRESENTED BY

David Walker
 Tom Marshall
 Patrick Woods
 David Appel

Nelson Levine
Tillinghast – Towers Perrin
Young, Moore & Henderson

Staff

Mike Nelson
Russell Greig
Mike Strickland
Mickey Spivey
Bill Trott
Jim Auman
Jannet Barnes
Adrienne Bizzell
Edith Davis
Chuck Eckstein
Ray Evans
Delisa Fairley
Vicki Godbold
Linda Gould
Bob Greer
Wayne Hinton
Fred Hoerl
Betty Hurst
Tim Lucas
Kamala Massey
Lois Murphey
Mike Newton
Karen Ott
David Sink
Amy Tart
Sue Taylor

241 other companies voted by proxy.

The meeting convened as scheduled, Mr. Batdorff of North Carolina Farm Bureau, 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. Approval of Minutes

The minutes were approved from the October 21, 2004 meeting.

2. Annual Report

Mr. Evans and Mr. Sink reviewed and commented on the 2004 Annual Report, a copy of which is attached hereto. The Annual Report was approved by the members.

3. Governing Committee Election

Mr. Blystone of Allstate Insurance Company, Chairman of the Nominating Committee, which had previously been appointed by the Chairman of the Governing committee opened the floor for nominations for three year positions on the Governing Committee. Company representatives were permitted to present their qualifications prior to the voting. As a result of the election Integon Indemnity Corporation and Liberty Mutual Insurance Company were selected for a second term. Erie Insurance Company replaced Auto Owners Insurance Company for the non-stock companies. Cincinnati Insurance and Progressive Casualty Insurance Company replaced Allstate Insurance Company and St. Paul Fire and Marine Insurance Company as the stock companies.

4. Chairman's Comments

Mr. Batdorff summarized his message that was written in the 2004 Annual Report. He thanked the Rate Bureau Staff, Counsel and Consultants for their efforts during the year. He also expressed appreciation to the member company representatives that assist the Rate Bureau by participating on the committees during the year.

5. Adjournment

There being no further business the meeting was adjourned.

Respectfully submitted,

Raymond F. Evans, Jr., CPCU

General Manager

RFE:lm

G-04-4

11/19/04



2004
ANNUAL REPORT

North Carolina Rate Bureau

5401 Six Forks Road • Raleigh, NC 27609

(919) 783-9790

www.ncrb.org



TABLE OF CONTENTS

IN THE BEGINNING	3
MESSAGE FROM THE CHAIRMAN.....	4
GENERAL MANAGER'S REPORT	6
INTERNAL CONTROL	7
THE HISTORY.....	8
THE GOVERNANCE	11
MEMBERSHIP.....	12
GOVERNING COMMITTEE	14
CONSTITUTIONAL COMMITTEES.....	17
<i>AUTOMOBILE COMMITTEE</i>	18
<i>TASK FORCE ON RATING METHODOLOGY</i>	19
<i>PROPERTY COMMITTEE</i>	19
<i>LEGAL COMMITTEE</i>	19
<i>WORKERS COMPENSATION COMMITTEE</i>	20
<i>PERSONAL AUTO POLICY SUBCOMMITTEE</i>	20
<i>SUBCOMMITTEE ON AUTOMOBILE TERRITORIES</i>	20
<i>PROPERTY FORMS SUBCOMMITTEE</i>	21
<i>PROPERTY RATING SUBCOMMITTEE</i>	21
NCRB ORGANIZATIONAL STRUCTURE.....	22
SENIOR MANAGEMENT TEAM.....	23
GENERAL MANAGER - ADMINISTRATION	24
FINANCE AND ADMINISTRATION.....	25
INFORMATION TECHNOLOGY & DATA PROCESSING.....	25
AUTOMOBILE & PROPERTY.....	26
WORKERS COMPENSATION	26
REINSURANCE FACILITY	27
INSURANCE GUARANTY ASSOCIATION.....	27
INSURANCE OPERATIONS	28
AUTO & PROPERTY INSURANCE TEAM.....	28
AUTOMOBILE INSURANCE	28
PROPERTY INSURANCE	32
WORKERS COMPENSATION INSURANCE	33
SUPPORT OPERATIONS	38
OPERATING EXPENSES	39
HUMAN RESOURCES REVIEW	40
INFORMATION TECHNOLOGY REVIEW	41
CONTACT INFORMATION	43

IN THE BEGINNING

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

MESSAGE FROM THE CHAIRMAN

Where are we? Where are we going?

In 2001 I addressed this group and challenged you to work toward changes to make the North Carolina insurance system better. Which gets me to the first question, how did we do, where are we?

Not necessarily in chronological order, here is some of what has happened since then:

- We have had Appeals Court and Supreme Court auto rate decisions – not in our favor.
- We postponed making a homeowner filing for fear it would follow the same path as most auto filings even though construction costs and catastrophe experience indicate increases are needed.
- We have settled for less than needed loss costs and residual rates for workers compensation even though Industrial Commission ruling seem to be broadening coverage.
- We are in the process of refunding an industry-wide \$250 to \$300 million as a result of the 2001 and 2002 auto rate cases.
- Almost a third of the refunds will go to the least deserving, those drivers already subsidized by a clean risk surcharge.
- A ZIP code territories plan for auto, researched, analyzed and recommended to the Department of Insurance was rejected as unacceptable.

Not exactly the best news, especially if you include these NAIC profitability report numbers:

- North Carolina auto has an average underwriting profit of -4.4% for the last ten years.
- North Carolina homeowners have an average underwriting profit of -21.1% for the last ten years.
- North Carolina workers compensation has an average underwriting profit of -3.5% for the past ten years, with double digit the past five.

And, if this isn't enough, consider these ideas:

- Declining auto claim frequency has helped auto experience.
- Eastern North Carolina residential property rates are extremely inadequate.
- There is some indication that at least moderate inflation is back.
- With structural changes in the state's economy, the trends used in Workers Compensation rate promulgation may be seriously understated.
- The auto cases decided by the Supreme Court may have reduced rate filings to a discussion of trends, not a situation likely to produce adequate rates.

The second question, then, is where do we go? I think you all will agree the above is pretty negative, but it does not suggest or imply nothing is being done. From a results standpoint we are not having the success we want. However, it is not for a lack of trying. The fact is that many, many of you have contributed a great deal to our efforts. I am encouraging you to keep working.

There might be hope. The Commissioner of Insurance has offered to work with us to avoid some of our historical disputes. We have accepted this offer and are well into the process of reviewing the rate making methodology and all of the ingredients included in it. We have asked his staff to do the same. Even though this is a road we have traveled before – with little success – we hope this is a turning point to changes in the future.

On a separate front, a number of member companies are exploring legislative changes to the system. The current system is decades old and is in need of change. In this vein, there is also the Oxley-Baker bill being readied for the U.S. House which could significantly alter the insurance environment.

My message this year is another challenge. This time the challenge is to keep working, to step forward and help with the design of a better way of conducting insurance business in North Carolina.

As a final note, I want to thank Ray and all of the associates at the Rate Bureau, the Reinsurance Facility and the Guaranty Association, our consultants and attorneys, and member companies for their support and effort this past year.

Sincerely,

Roger Batdorff
Chairman

GENERAL MANAGER'S REPORT

Throughout the following pages you will find many important changes have occurred in the Rate Bureau during this past year. A few of these include changes in the management staff, a complete overhaul of the IT Department, expanded Human Resource activities, documentation of processes and in many areas implementing meaningful standards of performance.

Many of these changes contribute to the strong foundation on which we have been working for the past several years. This foundation of people, systems and processes allows us to hire the right people, reward the right associates, do the right things in executing our tasks and do all of this at the right price for those that ultimately pay the bills.

The Rate Bureau is maturing into a sophisticated, electronic, knowledgeable, professional and competent organization with a clear focus on what needs to be done.

While we have been successful in changing the operations of the Rate Bureau, we have not been as successful in achieving implementation of the rate and rule changes we have proposed and filed. This is not a failure of effort, however. And, we are particularly appreciative of the help and support of our attorneys, experts and especially the Chairman, Roger Batdorff. We are dedicated to continue to propose, support and argue for the rates and rules North Carolina needs to maintain a competitive insurance industry environment.

More than in past years we are thankful to our associates as they learn, grow and enthusiastically (more than I hope for) change and to our committee members that spend more time on more complex issues and cheerfully (not an exaggeration) offer really good counsel and thoughtful consideration of the issues. Among those that have spent extraordinary amounts of time helping us this year are committee chairs Steve Armstrong and Dave Border.

As we begin a new year we are focused on our key responsibilities of complying with the enabling statute, being as effective as possible and being good stewards of the monies we receive.

Raymond F. Evans
General Manager

INTERNAL CONTROL

In view of a changing business environment as exemplified by passage of the Sarbanes-Oxley Act of 2002, the Organizations have taken steps to implement improvements in internal controls comparable to best practices in the industry.

Although the Organizations are not subject to Sarbanes-Oxley, they do embrace many concepts of good organizational governance similar to those promoted by the legislation. Accordingly, the Organizations are adopting on a voluntary basis selected aspects of established internal control frameworks, particularly the COSO Internal Control Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission.

The framework defines internal control as "... a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- ┆ Effectiveness and efficiency of operations
- ┆ Reliability of financial reporting
- ┆ Compliance with applicable laws and regulations."

The framework provides for achievement of these objectives through the five internal control components of (a) the control environment, (b) risk assessment, (c) control activities, (d) information and communication and (e) monitoring.

As part of these efforts, the Organizations have taken steps to strengthen governance by creating the Audit Committee of the Board of the North Carolina Insurance Guaranty Association, and by establishing charters outlining responsibilities of all committees, including the Compliance Committee and Audit Committee of the North Carolina Reinsurance Facility. In addition, the position of Manager of Internal Auditing was created to ensure implementation of standardized control systems and coordinated efforts among the Organizations.

Emphasis has been placed on promoting awareness of internal control principles in all activities and at all levels throughout the Organizations in the course of daily operations as well as incorporating effective controls in the design of new or improved business processes.

According to the control environment fostered by management in setting the "tone at the top", the increased focus on internal control and sound governance represents permanent change, and emphasis will be placed on further improvements on a continuing basis.

THE HISTORY

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 647 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 93 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.

THE HISTORY

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.

THE HISTORY

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.

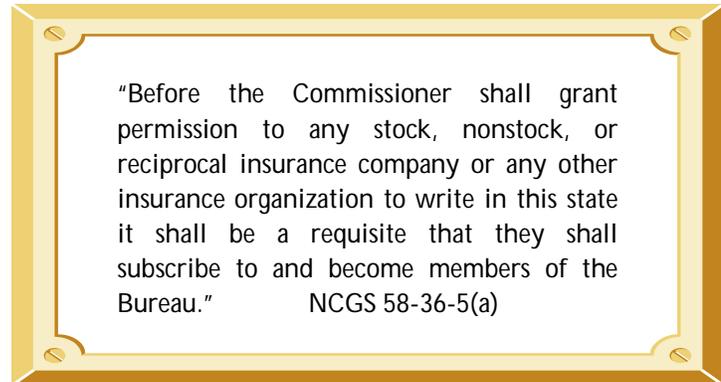
With constituents ranging from members, to policyholders, to consumer groups, to employers and a considerable economic impact on North Carolina, the Rate Bureau strives to meet its statutory obligation and provide service to members professionally with honesty and integrity.

THE GOVERNANCE

"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



At the beginning of the period covered by this report there were 650 companies. Of these 609 were members for automobile insurance, 593 were members for residential property insurance and 484 were members for workers compensation insurance.

As of August 31, 2004 there were 647 member companies, 605 for automobile insurance, 592 for residential property insurance and 479 for workers compensation insurance.

Members added during this year:

Member Company	Automobile	Residential Property	Workers Comp
Advantage Workers Compensation Insurance Company			€
American National Property & Casualty Company	Ž	H	
American Sentinel Insurance Company	Ž	H	
Daily Underwriters Insurance Services Company	Ž	H	
Guide One Specialty Mutual Insurance Company †	Ž	H	
Hudson Insurance Company	Ž	H	
Independent Mutual Fire Insurance Company		H	
Standard Casualty Company		H	
Stonewood Insurance Company	Ž	H	€

†Already a member but added property

MEMBERSHIP

The following companies withdrew from membership or were merged with another member company during the year:

Member Company	Automobile	Residential Property	Workers Comp
American Indemnity Co.	Ž	H	
Casualty Reciprocal Exchange	Ž	H	€
Commercial Casualty Insurance Company of North Carolina	Ž		
Lawrenceville Property & Casualty Insurance Company	Ž	H	€
Midstate Reinsurance Corporation	Ž	H	€
New York Central Mutual Fire Insurance Company	Ž	H	€
Newark Insurance Company	Ž	H	€
Omega Insurance Company		H	
Orion Insurance Company	Ž	H	€
Protective National Insurance Company of Omaha	Ž	H	
State Capital Insurance Company	Ž	H	€
Vesta Fire Insurance Corporation‡	Ž	H	

‡Still a member of automobile and property but removed from Workers Comp

"They shall (members), upon organization, elect a governing committee which governing committee shall be composed of equal representation by stock and non-stock 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)

GOVERNING COMMITTEE

During the past year, Art Ivey representing Allstate Insurance Company and Tom Marshall representing Auto-Owners Insurance Company retired.

The Rate Bureau, Governing Committee and the insurance industry of North Carolina are indebted to these gentlemen for their many years of service.

Art and Tom both have the personal qualities of experience, knowledge, honesty, sincerity, and common sense that made them "go to" members whenever there was a weighty issue.

Our collective thanks are expressed to Art and Tom and our best wishes for a long, healthy and successful "next life." We will certainly miss your participation.

GOVERNING COMMITTEE

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.

At the October, 2003 annual meeting these members companies were elected or continued to serve as voting members of the Governing Committee:

Term Expires	Member 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
2006	American Home Assurance Company Nationwide Mutual Insurance Company State Automobile Mutual Insurance Company Travelers Indemnity Company

GOVERNING COMMITTEE

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

Bob Blystone Atlanta, Georgia	Allstate Insurance Company
Robert Purdy Zonal Executive/Vice President Philadelphia, Pennsylvania	American Home Assurance Company
Mary Pierce Regional Vice President Charlotte, North Carolina	Auto Owners Insurance Company
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
Tom Rosie, Managing Director Charlotte, North Carolina	St. Paul Fire and Marine Insurance Co
Wes Florence NC Territory Manager Greer, South Carolina	State Automobile Mutual 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) and 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;

CONSTITUTIONAL COMMITTEES

- (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 representatives are serving on the Constitutional Committees:

AUTOMOBILE COMMITTEE	
Steve Armstrong Allstate Insurance Company	Art Lyon Integon Indemnity Corporation
Douglas Eland Nationwide Mutual Insurance Company	Kathy Popejoy State Farm Mutual Automobile Ins Co
Tom McNicholas GEICO Indemnity Company	Jeff Woodcock Liberty Mutual Insurance Company
Jamie Matthews Hartford Fire Insurance Company	Michael Fitzgerald Travelers Companies
Roger Batdorff NC Farm Bureau Mutual Insurance Co	Amy Brown Lumbermens Mutual Casualty Company
Jerry Rett Progressive Casualty Company	Tim Ungashick USAA
Eric Schauer Royal/Sun Alliance Group	

CONSTITUTIONAL COMMITTEES

TASK FORCE ON RATING METHODOLOGY	
David R. Border Allstate Insurance Company	Robert N. Batdorff NC Farm Bureau Mutual Insurance Company
Steven D. Armstrong Allstate Insurance Company	Kathy Popejoy State Farm Mutual Automobile Insurance Company
Art Lyon Integon Indemnity Corporation	Tim Ungashick United Services Automobile Association
Douglas D. Eland Nationwide Mutual Insurance Company	

PROPERTY COMMITTEE	
David Border Allstate Insurance Company	Steve Carroll NC Farm Bureau Mutual Insurance Company
Ronnie Chamberlain The Erie Insurance Group	Bob Messier State Farm Fire & Casualty Company
Chuck Uckele Penn National Insurance Companies	Randy Krauss Travelers Property & Casualty Company
Amy Brown Kemper National Insurance Companies	Joseph Schmucker USAA
Doreen Vaughan Nationwide Mutual Insurance Company	

LEGAL COMMITTEE	
Thomas Hiers Liberty Mutual Insurance Company	Frank Sadowski Travelers Indemnity Company
Thomas Dietrich Nationwide Mutual Insurance Company	Jim Crist St. Paul Companies
Scott Shaffer State Farm Mutual Automobile Ins Co	

CONSTITUTIONAL COMMITTEES

WORKERS COMPENSATION COMMITTEE	
Mary McQueen American Home Assurance Company	Roger Batdorff NC Farm Bureau Mutual Insurance Company
Charmaine German Builders Mutual Insurance Company	Ray Hinnant Ohio Casualty Insurance Company
Robert Johnson Harleysville Mutual Insurance Company	Alan Stowe PA National Mutual Casualty Insurance Company
Bill West Hartford Accident & Indemnity Company	Vernon Willis Royal Insurance Company of America
John Godfrey Key Risk Insurance Company	Jeff Schmid St. Paul Fire & Marine Insurance Company
Cheryl Watts Liberty Mutual Insurance Company	Wade Overgaard Travelers Insurance Company
Joseph Wells Maryland Casualty 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.

PERSONAL AUTO POLICY SUBCOMMITTEE
Linda Leonard Allstate Insurance Company
J. Curt Cretti Nationwide Mutual Insurance Company
Everett J. Truttman State Farm Automobile Insurance Company

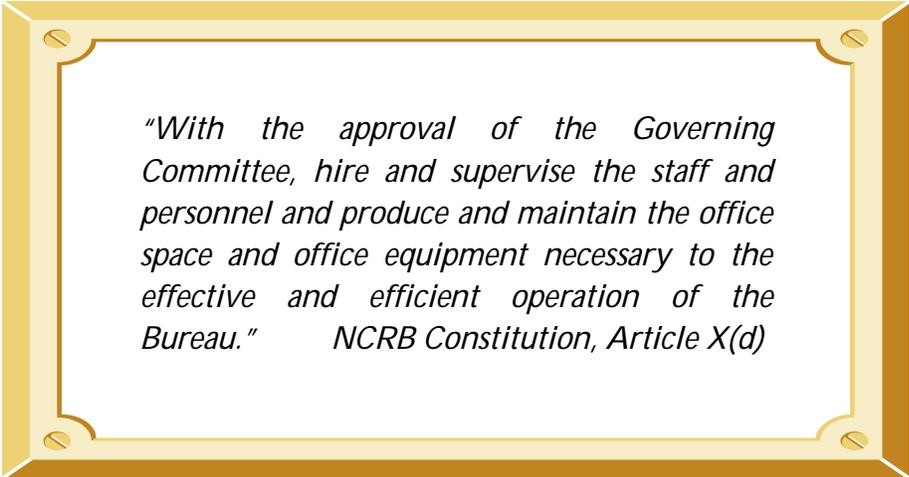
SUBCOMMITTEE ON AUTOMOBILE TERRITORIES	
Kathy Olcese Allstate Insurance Company	Kathy Popejoy State Farm Mutual Automobile Ins Company
Art Lyon Integon Indemnity Corporation	Michael Fitzgerald Travelers Insurance Company
Douglas Eland Nationwide Mutual Insurance Company	

CONSTITUTIONAL COMMITTEES

PROPERTY FORMS SUBCOMMITTEE	
Doreen Vaughan Nationwide Mutual Fire Insurance Company	David J. Kelly Foremost Insurance Company
Bob Lorch Allstate Insurance Company	Kevin Randall American Modern Insurance Group
Susan Fiorentino Kemper Auto and Home	Dina Olsen American Bankers Insurance Company of Florida
Steve Carroll NC Farm Bureau Mutual Insurance Company	

PROPERTY RATING SUBCOMMITTEE	
David Border Allstate Insurance Company	Susan Cleaver State Farm Fire & Casualty Company
Randy Krauss Travelers Property & Casualty Company	Josh Worsham Royal Insurance Company of America
Robert La Prete Nationwide Mutual Insurance Company	Roger Batdorff NC Farm Bureau Mutual Insurance Company

NCRB ORGANIZATIONAL STRUCTURE



"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 represent how the Bureau was organized and staffed during the period September 1, 2003 through August 31, 2004.

SENIOR MANAGEMENT TEAM



Ray Evans
General Manager



David Sink (NCRB)
Director, Finance & Admin



Bob Greer (NCRB)
Manager, Internal Auditing



Lois Murphey
Executive Assistant



Jim Auman (NCRB)
Manager, Info Technology



Tim Lucas (NCRB)
Manager, Auto and Property



Sue Taylor (NCRB)
Director, Workers Comp



Edith Davis (NCRF)
Director, Reinsurance Facility

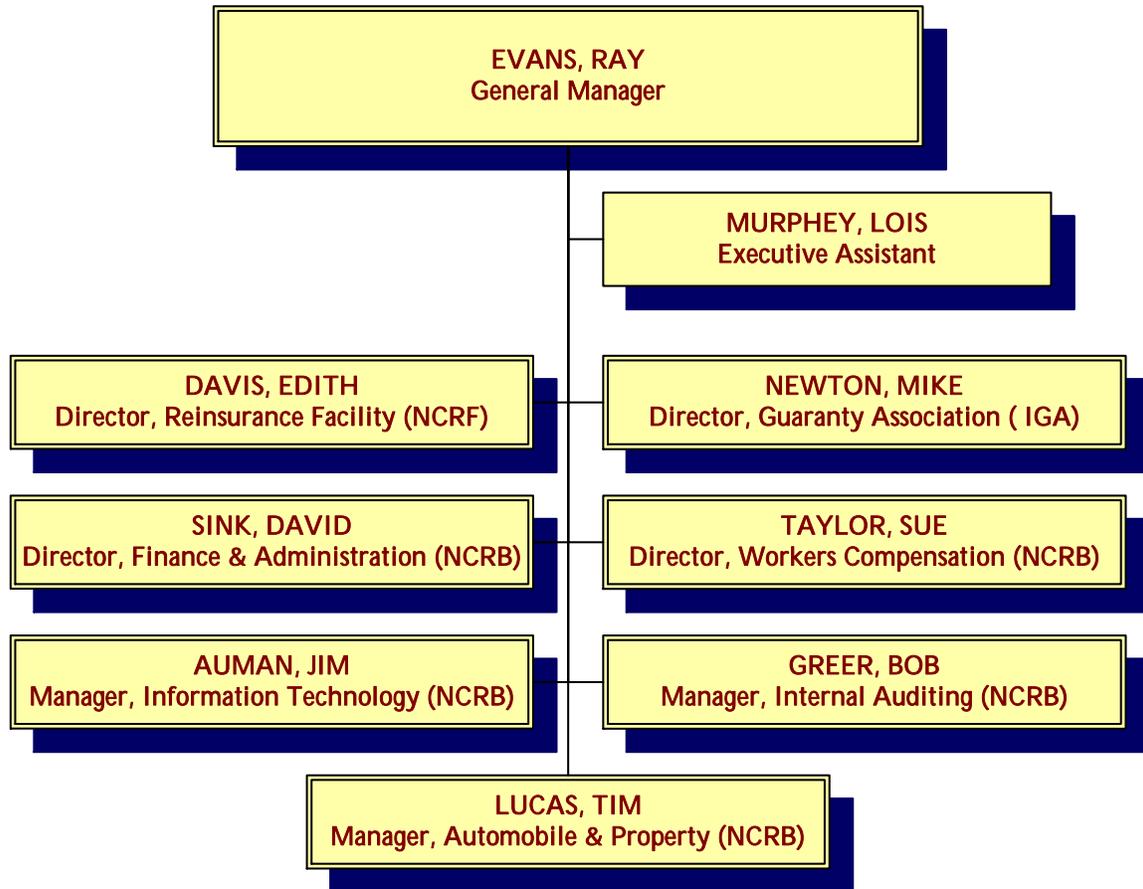


Vicki Godbold (NCRB)
Director, Human Resources

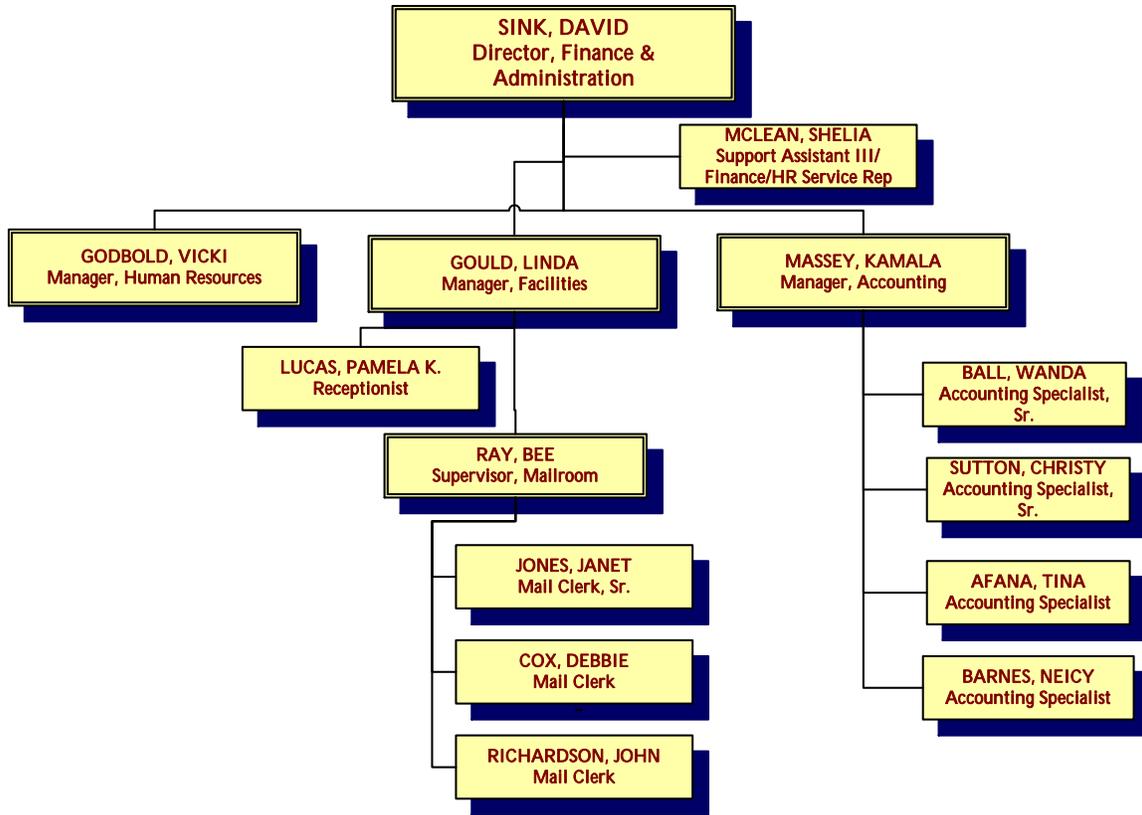


Mike Newton (IGA)
Director, Ins Guaranty

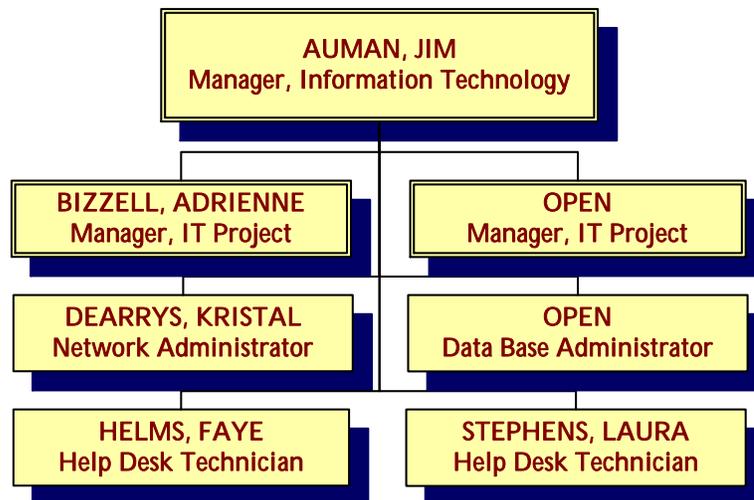
GENERAL MANAGER - ADMINISTRATION



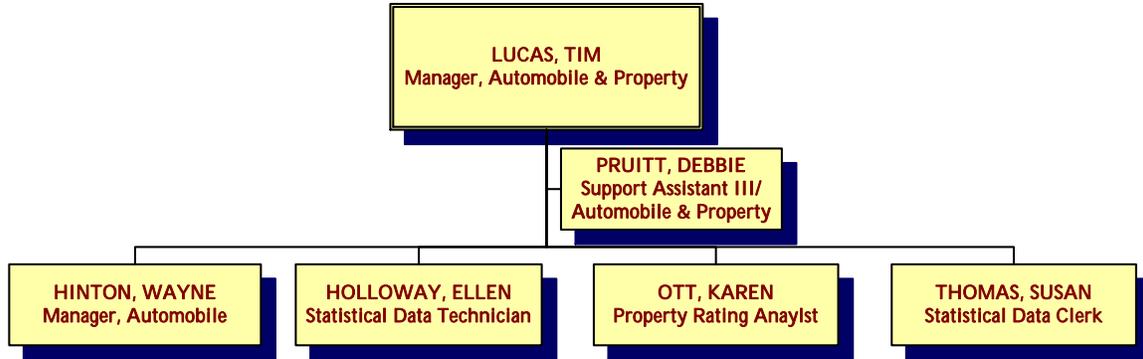
FINANCE AND ADMINISTRATION



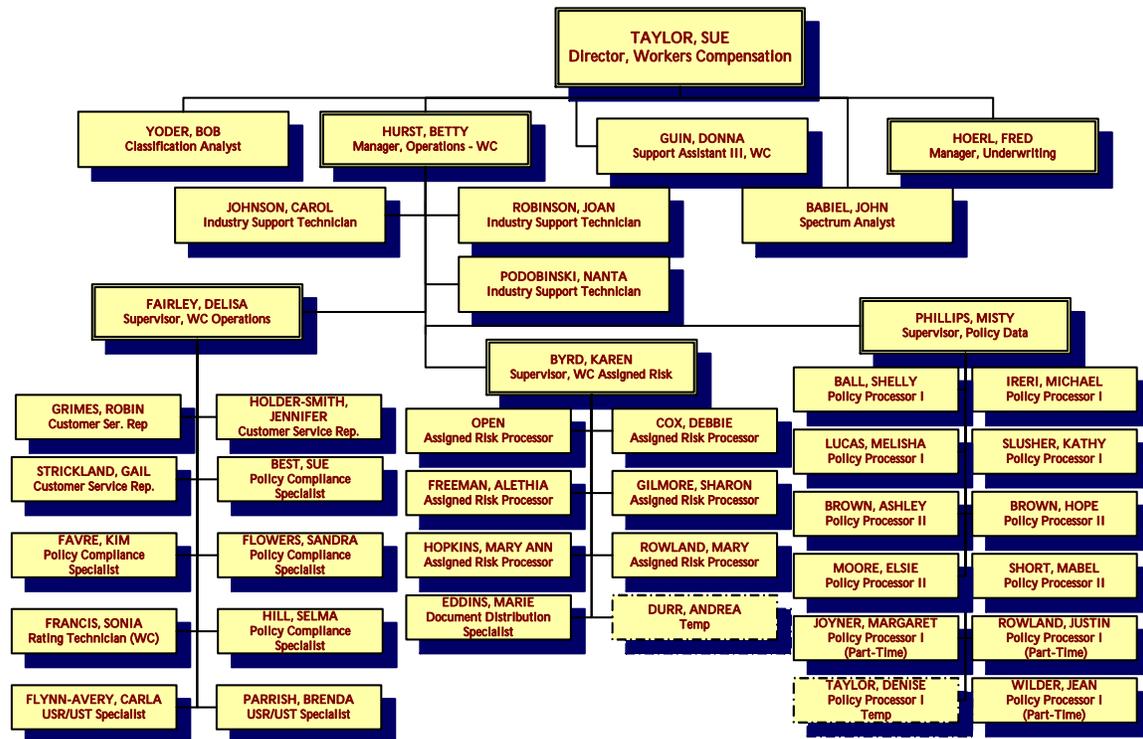
INFORMATION TECHNOLOGY & DATA PROCESSING



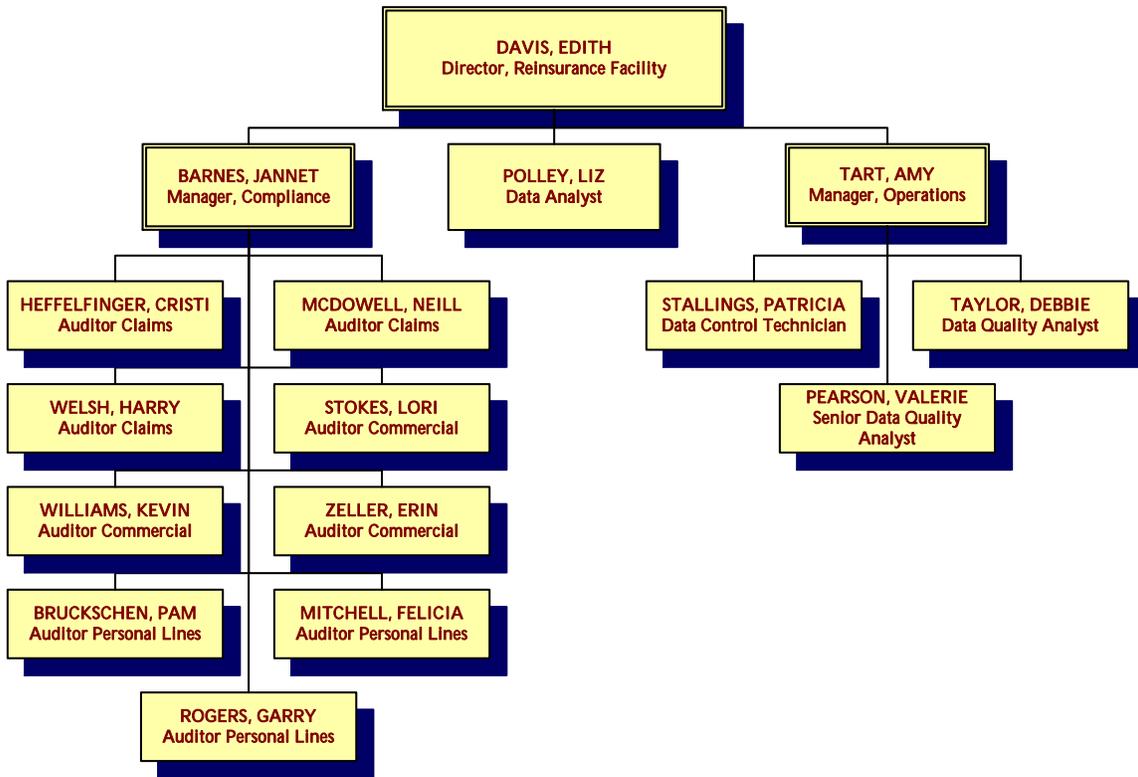
AUTOMOBILE & PROPERTY



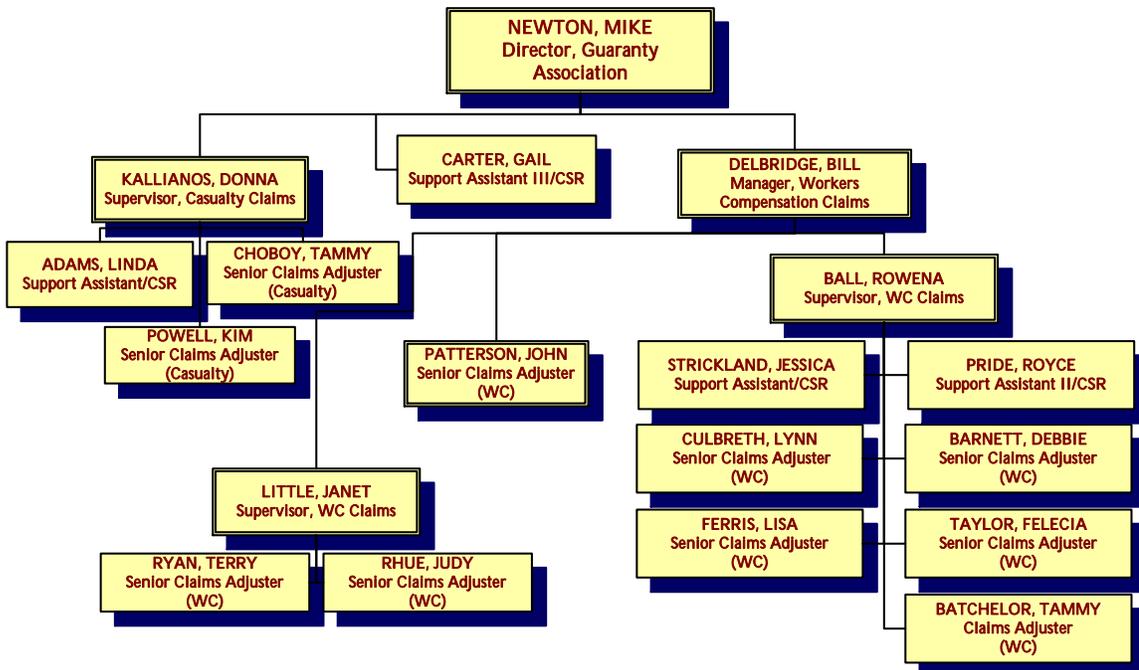
WORKERS COMPENSATION



REINSURANCE FACILITY



INSURANCE GUARANTY ASSOCIATION



INSURANCE OPERATIONS

AUTO & PROPERTY INSURANCE TEAM



AUTOMOBILE INSURANCE

The following automobile insurance filings submitted by the Rate Bureau were approved or deemed approved by the Commissioner of Insurance during the year ended August 31, 2004:

FILING DATE	SUBJECT
September 19, 2003	Personal Auto Manual Revisions - Rules Revision
September 19, 2003	Personal Auto Policy Program Forms Revision
September 19, 2003	Endorsement NC 03 35 01 04 – Loss Settlement – Original Equipment Manufacturer Parts Forms Filing
October 2, 2003	Personal Auto Policy Program – Revised Uninsured & Combined Uninsured/Underinsured Motorists Coverage
December 17, 2003	Endorsement NC 03 35 01 04 – Loss Settlement – Original Equipment Manufacturer Parts – Rating Rule
January 15, 2004	Personal Auto Manual Revision – Inexperienced Operator Manual Rule
January 15, 2004	Personal Auto Manual Revision – Safe Driver Insurance Plan – Rule 5B – Exception D
June 10, 2004	Uninsured & Uninsured/Underinsured Motorists Coverages – Selection/Rejection Form NC 01 87 06 04

The following automobile insurance filing was withdrawn effective July 9, 2004:

FILING DATE	SUBJECT
November 12, 2003	Revised Private Passenger Automobile Territory Definitions – Personal Auto Policy Program

RATE REVISION

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 automobiles and a decrease of 2.4% for motorcycles. It was proposed 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 and scheduled a public hearing to convene on September 9, 2001.

For various reasons, the public hearing was postponed and convened on September 25, 2001. Following the conclusion of the public hearing on October 31, 2001, the Commissioner of Insurance on December 12, 2001, entered an Order 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 (1) to appeal to the North Carolina Court of Appeals those provisions included in the Commissioner's Order dealing with the disapproval of non-fleet private passenger automobile and motorcycle insurance rates filed by the Rate Bureau; (2) to proceed with implementation of rate level changes that result in an overall rate level change of +5.0% for non-fleet private passenger automobiles; and (3) to implement a rate level change of -4.9% for motorcycle liability coverage.

The Court of Appeals issued its opinion on October 7, 2003, ruling against the Rate Bureau on the issues appealed, including the treatment of investment income on capital and surplus and the treatment of dividends and deviations.

Following the Court of Appeals opinion, the Rate Bureau filed a Notice of Appeal with the Supreme Court on the issue of the treatment of dividends and deviations and a Petition for Discretionary Review with the Supreme Court on the issue of the treatment of investment income on capital and surplus, but the Petition was denied. After the Rate Bureau filed a Motion for Rehearing requesting the Supreme Court to reconsider its denial of the Petition, the Supreme Court decided on its own motion to review the issue of the treatment of investment income on capital and surplus.

Following the oral arguments before the Supreme Court, the Court issued an opinion on June 25, 2004 which ruled against the Rate Bureau on the issue of dividends and deviations and ruled that discretionary review of the issue of the treatment of investment income on capital and surplus had been improvidently allowed, thereby allowing the decision of the Court Appeals to stand.

On July 22, 2004, that Commissioner issued an Order requiring member companies to refund amounts held in escrow. The Order required the refunds to be issued no earlier than October 1, 2004 and to be completed by October 29, 2004.

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 motorcycle liability. 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 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% for motorcycle liability. The Commissioner's Order did not include an effective date.

On October 29, 2002, the Governing Committee of the Rate Bureau voted (1) to appeal to the North Carolina Court of Appeals those provisions included in the Commissioner's Order dealing with the disapproval of non-fleet private passenger automobile and motorcycle insurance rates filed by the Rate Bureau; (2) to proceed with implementation of rate level changes that result in an overall rate level change of +5.9% for non-fleet private passenger automobiles and +3.5% for motorcycle liability; and (3) that the implemented rates become effective January 27, 2003.

Oral arguments were made before the Court of Appeals on June 8, 2004. Prior to the issuance of an opinion by the Court, the Rate Bureau entered into a Settlement Agreement dated July 22, 2004 with the Commissioner requiring the member companies to refund a portion of the monies held in escrow. The Settlement required the refunds to be issued no earlier that October 1, 2004 and to be completed by November 29, 2004.

3) 2004 Private Passenger Automobile Rate Filing

On February 2, 2004, 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 12.2% for private passenger automobile liability and physical damage and an increase of 0.1% for motorcycle liability. It was proposed to become effective October 1, 2004.

On July 22, 2004, the Rate Bureau entered into a Settlement Agreement with the Commissioner agreeing to a “no change” in the overall base rates effective January 1, 2005 other than the changes resulting from the approved update to the model year and symbol relativities.

DEVIATIONS

As of September 30, 2004, there were 197 member companies with approved rate deviations applicable to insurance for non-fleet private passenger automobiles. Five companies' deviations applied to physical damage coverages only, 186 companies' deviations applied to both the liability and physical damage coverages and six companies had a liability only deviation.

APPEALS BY INSUREDS

There were 158 written inquiries regarding potential “at fault” accidents. Of the 158 inquiries the Companies' voluntarily reduced/removed the points in twenty-two of these inquiries. Of the remaining, staff conducted thirty-nine 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 fourteen of the cases and ruled that the carrier had incorrectly interpreted the rules of the Safe Driver Insurance Plan in nineteen cases. Three hearings conducted resulted in the reduction in the number of points charged.

LEGISLATION

The North Carolina General Assembly met in 2004 and enacted no legislation that affected automobile insurance coverages subject to the Rate Bureau's jurisdiction.

PROPERTY INSURANCE

The following property insurance filings submitted by the Rate Bureau were disapproved by the Commissioner of Insurance during the year ending August 31, 2004, however, the HO-2000 Policy Program was approved on September 21, 2004:

FILING DATE	SUBJECT
August 28, 2003	Introduction of Homeowners Policy Program (2000 Edition) Forms and Endorsements
December 22, 2003	Revision to Homeowners Enhancement Program (HE-7)
January 14, 2004	Revision to the Homeowners Blanket Property (HB) Limit Policy Program – Forms & Endorsements

RATE REVISIONS

During 2004, the Governing Committee authorized Rate Bureau staff to proceed with making a Homeowners rate level filing with the Department of Insurance. The overall indications, for all forms, is +15.4% with +76.1% in the beach and +71.9% in the coastal area. At this time, staff is in the pre-filing discussion stage with the Department and expect to file in mid-October.

DEVIATIONS

The following table shows the number of member companies with approved deviations as September 30 of the years indicated:

	2003	2004
Fire and Extended Coverage	85	85
Homeowners	200	204
Mobile Home Owner MH(C)	24	24
Mobile-Homeowners MH(F)	23	22

LEGISLATION

The North Carolina General Assembly met in 2004 and enacted no legislation that affected dwelling or mobile home insurance coverages subject to the Rate Bureau's jurisdiction.

WORKERS COMPENSATION INSURANCE

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 ratings.
4.	Inspecting and classifying risks.
5.	Gathering and maintaining policy data for every employer and policyholder in North Carolina.
6.	Maintaining supporting functions for these activities.

LOSS COSTS/RATE FILINGS

During the period of this report there was one loss costs filing and one rate filing having an impact on workers compensation insurance:

2003 Loss Costs Filing

In a filing dated August 29, 2003, the Rate Bureau submitted to the Commissioner of Insurance a filing proposing an average loss costs change of 8.2% for industrial classifications and an average pure premium increase of 23.2% for the "F" classifications.

As a result of negotiations with the North Carolina Commissioner of Insurance, a Settlement Agreement and Consent Order was approved modifying the loss costs change for the industrial classifications to -1.0% relative to the advisory loss costs currently in effect. The filed advisory loss costs for the industrial classifications became effective April 1, 2004.

2003 Residual Market Rate Filing

On August 29, 2003, the Rate Bureau submitted to the Commissioner of Insurance a filing proposing an average increase of 19.5% in the overall premium level of the workers compensation insurance residual market.

WORKERS COMPENSATION INSURANCE

As a result of negotiations with the North Carolina Commissioner of Insurance, a Settlement Agreement and Consent Order was approved modifying the rate change to 5.0% relative to the rates currently in effect. The rates became effective April 1, 2004.

ASSIGNED RISK

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 14.4% more applications resulting in new assignments during the year ending August 31, 2004 compared to the prior year.

	2003	2004	INCREASE
New Assignments	11,748	13,445	14.4%
Renewal Assignments	15,401	19,506	26.7%
Total Assignments	27,149	32,951	21.4%

The total premium volume increased 5 percent to \$102.2 million.

	2003	2004	INCREASE
New Premium	\$34.7 mil	\$35.1 mil	1.2%
Renewal Premium	\$62.6 mil	\$67.1 mil	7.1%
Total Premium	\$97.3 mil	\$102.2 mil	5.0%

During the year, seven carriers participated as Direct Assignment Carriers and four carriers were servicing carriers.

EXPERIENCE MODIFICATION RATINGS

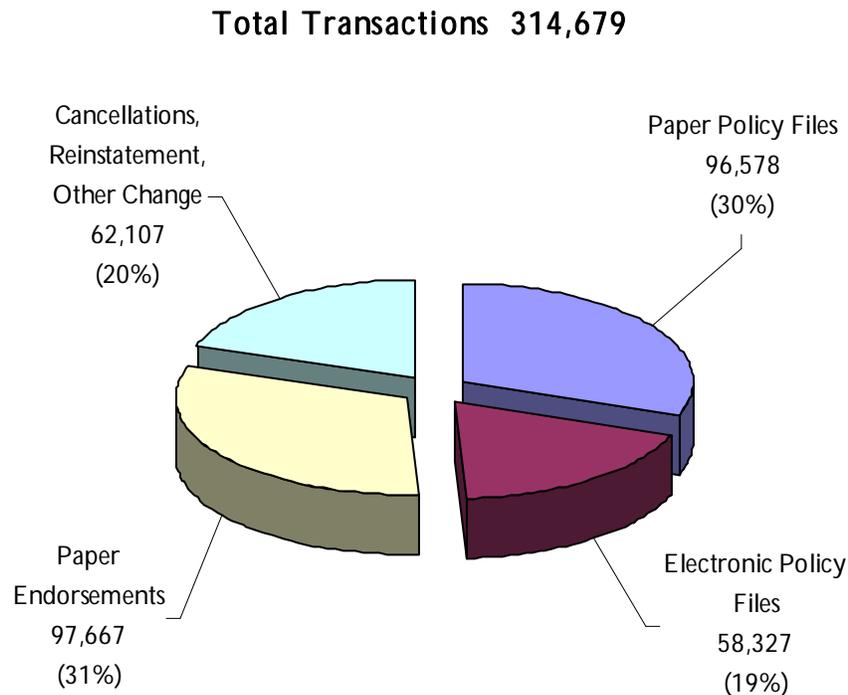
The Experience Rating Unit, in addition to processing almost 181,000 unit statistical reports for individual policies, calculated 104,000 intrastate experience ratings.

INSPECTION OF RISKS

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, 373 employer inspections were completed.

POLICY ENTRY

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.



The Percent of policy data that is received electronically from the carriers is 37.3%. This is a significant increase over the prior year submission of 23.5%. Increasing the percentage of electronic submissions remains an area of concentration for the department throughout the upcoming year.

NOTABLE ACCOMPLISHMENTS

The following represents noteworthy accomplishments in the workers compensation department between September 1, 2003 and August 31, 2004:

1. Improved website

- Link to SCOPES Manual for classification codes
- Contact information for associates
- NC approved endorsements available for viewing and printing
- Update experience mods every 24 hours

2. Initiated

a file purge program to eliminate the paper files in the department.

3. Developed

a fill-able Inspection Request Form.

4. Outsourced

inspection processing to reduce department manpower and increase efficiencies.

5. Implemented

an auto reject program for unit statistical reports that creates a carrier notification of rejections.

6. Created

an Industry Support Team in the department to assist with IT projects and to act as a liaison with Spectrum software vendor.

7. Began

the servicing carrier bid process to select servicing carriers for Assigned Risk commencing January 1, 2005.

8. Established

a Customer Service Department to centralize phone calls and improve quality of responses from the department.

9. Introduced

Compensation Data Exchange (CDX) -- an Internet-based service that facilitates the electronic transmission of workers' compensation data between insurers and NCRB.

10. Created

an online Assigned Risk application for agents to fill-in and download.

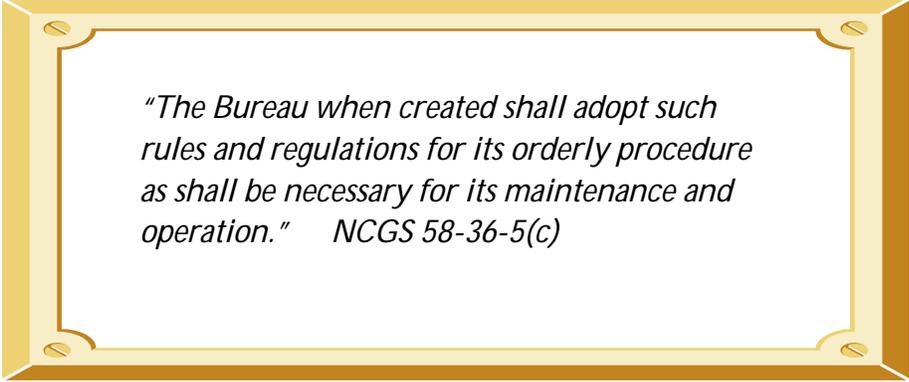
11. Filed changes to rules and manuals as follows:

- a. Reporting of Fraudulent Claim Code
- b. URE WCSP Pension Table Revisions
- c. 2004 Update to Retrospective Rating Plan Parameters
- d. Pending Rate Change Endorsement (WC 00 04 04)
- e. Unit Statistical Reporting Instruction Enhancements
- f. Notification Endorsement of Pending Law Change to Terrorism Risk Insurance Act of 2002 (WC 00 01 12)
- g. Enhanced reporting requirements by adding 6th-10th unit statistical report levels

12. Improved

processing efficiencies and decreased staff through attrition.

SUPPORT OPERATIONS



“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)

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.

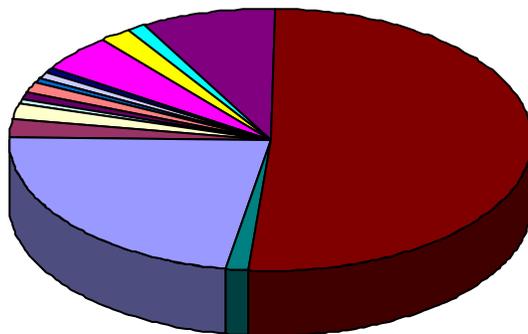
The accounting unit is responsible for all of the activities and operations related to assessments, payables, receivables and payroll.

It is also in this area that expenses of the Rate Bureau are managed.

OPERATING EXPENSES

The following data summarizes the Rate Bureau operating expenses for comparable periods ending August 31, 2003 and August 31, 2004:

	2003	2004	CHANGE
Salaries and Administration	\$2,260,787	\$2,281,996	0.94%
Payroll Taxes	\$ 196,187	\$ 206,651	5.33%
Rent	\$ 214,321	\$ 211,139	-1.48%
Travel	\$ 62,898	\$ 42,460	-32.49%
Postage	\$ 65,800	\$ 77,911	18.41%
Software and Systems Maintenance	\$ 75,640	\$ 150,779	99.34%
Printing and Office Supplies	\$ 69,073	\$ 62,077	-10.13%
Furniture and Equipment	\$ 373,251	\$ 90,072	-75.87%
Telephone	\$ 56,245	\$ 46,656	-17.05%
Group Insurance	\$ 438,074	\$ 481,557	9.93%
Retirement Plan	\$ 86,941	\$ 182,579	110.00%
Employees Savings Plan	\$ 117,102	\$ 117,561	.39%
Legal Expenses	\$ 854,280	\$ 841,544	-1.49%
Outside Services	\$5,364,196	\$5,168,112	-3.66%
Other Expenses	\$ 91,920	\$ 131,162	42.69%
TOTAL	\$10,326,715	\$10,092,255	-2.27%



2004 OPERATING EXPENSES

Salaries and Administration	Payroll Taxes
Rent	Travel
Postage	Software and Systems Maintenance
Printing and Office Supplies	Furniture and Equipment
Telephone	Group Insurance
Retirement Plan	Employees Savings Plan
Legal Expenses	Outside Services
Other Expenses	

HUMAN RESOURCES REVIEW

As a strategic partner with all Organizations, the Human Resources department strives to provide opportunities for each associate's personal and professional growth, which in turn, enables the best possible service to member companies.

During this report period Human Resources responsibilities included administering HR policies, programs and practices. Additionally, the Associate Handbook was updated, revised and made electronically available to all associates through the NCRB intranet.

During this report period twelve new associates joined the staff -- three within NCRF and nine within NCRB -- through recruitment guidelines of hiring experienced and skilled professionals.

Ongoing work in Compensation and Benefits included updating the compensation program by development of an incentive program and maintaining NCRB salary ranges and structure within market trend guidelines. In January educational sessions for the 401(k) plan were conducted and July 1 brought plan enhancements for this plan.

In-depth management training occurred early in the year for all supervisors and managers along with coordination of professional development seminars through out the year.

On a daily basis the Human Resources department assisted management in communicating clear expectations for all associates with a goal to effectively and efficiently work with all employee relation issues that arose.

Compliance with government regulations and employment practices were also critical responsibilities. By August all job positions were reviewed to ensure compliance with the new regulations issued under the Fair Labor Standards Act (FLSA), the federal wage-hour law.

INFORMATION TECHNOLOGY REVIEW

The IT Department went through a substantial evolution over the last year. This evolution was initiated by a refocused business strategy set forth by the General Manager:

- : We are a data collection business
- : We most effectively do business in an electronic environment
- : We are not software developers

In March 2004, a newly appointed IT manager set forth to turn this strategy into a reality. The hardware and network infrastructure technology was already in place. Knowing that a great deal of software development projects were going to occur, the IT Department spent the remainder of the year building staff, strategies, and frameworks to support these development efforts.

The infrastructure support staff was bolstered to include a full-time Database Administrator, a dedicated Network Administrator, and two Help Desk Technicians. IT is currently identifying Application Support Analysts in the office to assist the business units with applications after they are developed. 3rd Party vendors have been identified and contracted to fill in any knowledge or resource gaps. An IT support strategy was developed to ensure that all technologies have adequate and efficient support and have a 98% availability rate. A disaster recovery effort will begin later this year to further meet this goal.

IT adopted a framework which leverages the common IT services shared by the Organizations. All three organizations have common needs that do not need to be duplicated. These include but are not limited to membership/contact management, accounting, communication and security.

The IT framework also ensures that “best-of-breed” technologies are chosen for new systems. This “technology framework” guides us to choose development and database products for each project that are mature, have wide-industry acceptance, follow a service-oriented architecture and can easily interoperate within the current IT infrastructure.

IT acquired legal counsel specializing in software development to ensure that key contract and legal issues were well-thought out and resolved prior to engaging a development vendor. IT currently has its own software development agreement that all vendors must sign prior to obtaining a contract.

INFORMATION TECHNOLOGY REVIEW

Two experienced Project Managers were hired to develop and implement a standardized, adaptable, and proven project methodology by which all projects would follow. By implementing a project methodology, IT is ensuring that projects are conducted in a disciplined, well-managed, consistent manner that promotes the delivery of quality products and results in projects that are completed on time and within budget.

The Organizations Senior Management team adopted the role of the “project steering committee” and identified over forty projects that could help the Organizations more efficiently and effectively meet their statutory obligations. Of those forty projects, the following ten are currently being managed by IT:

1	The NCRF Information System
2	A membership-based Contact Management System for the Organizations to track its customers
3	A secure Web-Portal for customer access to the Organizations website
4	A Document Management system for critical document archival and retrieval
5	An effort to produce a new Corporate Identity for the each organization
6	An Accounting System assessment
7	A new Assessment system for obtaining funding
8	Web-based workers comp applications for allowing agents and carriers to manage Assigned Risk and Unit Statistical Reporting
9	Improvements to the existing Industry Data collection web-based applications
10	Enhancements to the insolvency processing system of the IGA

CONTACT INFORMATION

WWW.NCRB.ORG

Ray Evans

General Manager
Telephone: (919) 783-9790
Fax: (919) 783-0355
E-Mail: rfe@ncrb.org

David Sink

Director, Finance & Administration
Telephone: (919) 783-9790
Fax (919) 783-9542
E-Mail: des@ncrb.org

Sue Taylor

Director, Workers Compensation
Telephone: (919) 783-9790
Fax (919) 783-7467
E-Mail: smt@ncrb.org

Tim Lucas

Manager, Automobile & Property
Telephone: (919) 783-9790
Fax: (919) 783-0355
E-Mail: ftl@ncrb.org

FOR ADDITIONAL INFORMATION

Lois Murphey

Executive Assistant & Member Services
Telephone: (919) 582-1002
Fax: (919) 783-0355
E-Mail: llm@ncrb.org

NORTH CAROLINA RATE BUREAU

NORTH CAROLINA RATE BUREAU

- ✦ Message from the Chairman
- ✦ General Manager's Report
- ✦ History
- ✦ Governance
- ✦ NCRB Team
- ✦ Insurance Operations
- ✦ Support Operations

NORTH CAROLINA RATE BUREAU

LEGAL

CASE ACTIVITY

▶ Auto Rate Case Settlement

- ▶ 2001 Auto - rates effective 4/1/02 through 1/26/03
- ▶ 2002 Auto - rates effective 1/27/03 through 6/30/03
- ▶ 2004 Auto - rates effective beginning 1/1/05

▶ Burrill v. Long, NCDOT, NCRB and Nationwide

- ▶ Class action lawsuit re constitutionality of SDIP

CASE ACTIVITY (continued)

- ▶ Somerset Studios, Incorporated v. CNA et al.
(including NCRB)
 - ▶ Lawsuit alleging overstatement/overpayment of workers' compensation insurance losses by carriers

MANAGEMENT'S VISION

MANAGEMENT'S VISION

▲ Governing Committee Instructions

- Comply with Statute and Constitution
- Be as effective as possible
- Be competent and professional

MANAGEMENT'S VISION

Summary of the Past Year

- Did not obtain the rate changes we wanted
- Change in rate making methodology
- Workers Compensation processing
- Adapting to an electronic environment

MANAGEMENT'S VISION

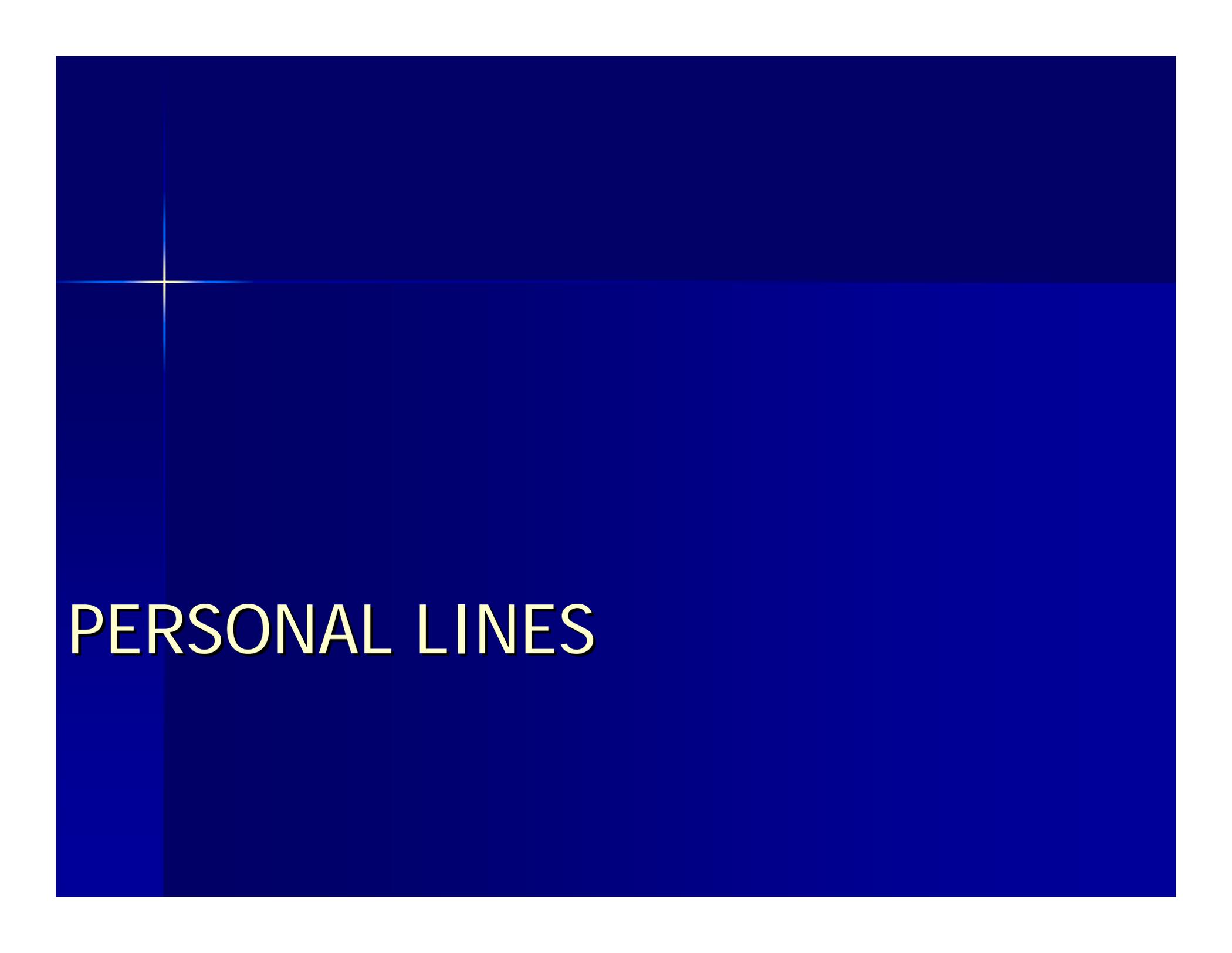
▲ Challenges Ahead

- Be more cost effective
- Better advocates for the state filings you approve
- Changes in the Statute
- Large rule and manual program revisions
- Workers Compensation System

MANAGEMENT'S VISION

▲ Strategies

- Foundation
- Processes
- Good People
- Vision
- Discipline
- Skill



PERSONAL LINES

AUTOMOBILE

- Inexperience Operator Manual Rule
- Task Force on Rating Methodology
- Personal Auto Policy Changes
 - Eliminating NC 00 12 and NC 00 13
 - Electronic Equipment
 - Loss Payable Clause
 - Fraud in Connection with Accident

PROPERTY

- Homeowners 2000 Policy Program

- Homeowners Enhancement (HE-7) Policy Program

- Homeowners Blanket (HB) Policy Program

- Homeowners Rate Level Indications

- Mobile Homeowners Policy Programs

- Eliminating MH(F) Policy and adding Endorsement to Homeowners Policy

- Rewriting MH(C) Policy

WORKERS COMPENSATION

WORKERS COMPENSATION

MISSION STATEMENT 2004

- ▶ Efficient data collection operation
- ▶ Proactively service the member companies
- ▶ Work closely with the supporting organizations
- ▶ Develop the staff of the department to become more effective and able to assume increased responsibility

WORKERS COMPENSATION

STRATEGIES 2004/2005

- ▶ Review all departmental processes
- ▶ Facilitate a move to electronic processing of policies and USRs
- ▶ Emphasize web-based
- ▶ Evaluate role in Spectrum partnership
- ▶ Provide proactive analysis
- ▶ Listen to the customer
- ▶ Improve internal communications with associates

INTERNAL CONTROL

A CHANGING ENVIRONMENT

- ▶ The business environment has changed
- ▶ Organizations not subject to Sarbanes-Oxley
- ▶ We embrace good organizational governance
- ▶ Current internal controls are effective
- ▶ Can be improved
- ▶ Voluntarily adopt best practices

CONTROL FRAMEWORKS

▶ We are evaluating the following frameworks:

▶ COSO - Internal Control Integrated Framework

❖ A corporate governance framework

▶ COBIT - Control Objectives for Information Technology

❖ An extension of COSO for IT governance

▶ Broad-based, flexible and widely used

▶ Can be tailored to fit our organizations

COSO – OBJECTIVES

- ▶ Internal control is a process
- ▶ Involves governing boards, managers and others
- ▶ To achieve objectives:
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations

COSO - INTERNAL CONTROL COMPONENTS

- ▶ Objectives achieved through internal control components:
 - ▶ Control environment
 - ▶ Risk assessment
 - ▶ Control Activities
 - ▶ Information and Communication
 - ▶ Monitoring

CONTROL ENVIRONMENT

▲ "Tone at the top":

- The foundation of good governance
- Set by governing boards, committees and management
- Communicated and reinforced at all levels

GOING FORWARD

- ▶ Boards and committees become more involved with internal control
- ▶ Committee charters created:
 - NCRF Audit Committee
 - NCRF Compliance Committee
 - NCIGA Audit Committee of the Board
- ▶ Manager of Internal Auditing - new position

INTERNAL CONTROL

GOING FORWARD (continued)

- ▶ Document processes, evaluate risks, apply controls
- ▶ Effective controls in new business systems
- ▶ Establish "Whistleblower" procedures
- ▶ Training and professional development
- ▶ Promote awareness and acceptance internal control
- ▶ Maintain best practices

FINANCE & ADMINISTRATION

FINANCE & ADMINISTRATION

- ▶ ACCOUNTING

- ▶ INVESTMENTS

- ▶ FACILITIES

 - ▶ MAIL & DISTRIBUTION

 - ▶ EMERGENCY – SECURITY – RECEPTION

FINANCE & ADMINISTRATION

ACCOUNTING (Internal)

- ▶ System Evaluation
- ▶ Management Reporting Enhancements
- ▶ Human Resources System Interface

FINANCE & ADMINISTRATION

ACCOUNTING (External)

- ▶ Assessments, Reapportionment and Refunds (IT)
- ▶ Electronic Funds Transfers
- ▶ On-Line Vendor Relationships

INVESTMENTS

- ▶ Banking Relationships
- ▶ Internal Cash Management
- ▶ Current and Appropriate Guidelines

FINANCE & ADMINISTRATION

FACILITIES

- ▶ Office Expansion
- ▶ Phone System Enhancements
- ▶ Office Equipment
- ▶ Mail & Distribution Efficiencies

HUMAN RESOURCES

HUMAN RESOURCES

HUMAN RESOURCES MISSION STATEMENT

The mission of the Human Resources Department is to support the goals and challenges of the Organizations by providing services which promote a work environment that is characterized by fair treatment of associates, open communications, personal accountability, trust and mutual respect.

HUMAN RESOURCES

WE WILL DO THIS BY:

- ▶ Promoting, recruiting and retaining the best-qualified people recognizing and encouraging the value of diversity in the work place.
- ▶ Providing a competitive salary and benefit package and developing the full potential of our associates by providing training and development for career enhancement.
- ▶ Providing a work atmosphere that is safe, healthy and secure and also conscious of long-term family and community goals.

HUMAN RESOURCES

WE WILL DO THIS BY:

- ▶ Establishing, administering and effectively communicating sound policies, rules and practices that treat associates with dignity and equality while maintaining organization compliance with employment and labor laws and organizational directives.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY

- ▶ An Organizational View!
- ▶ Our business is DATA
 - ▶ Collect
 - ▶ Analyze
 - ▶ Inform
- ▶ Technology will facilitate effective business operations

INFORMATION TECHNOLOGY

▲ Staffing

- New IT Manager
- Redefined Infrastructure Support
- Business-minded Application Support
- PMO and Project Managers
- Outsourced software development

INFORMATION TECHNOLOGY

▲ Development of IT Framework

- Reinforces Business Process Analysis
- Details Technology & Architecture Framework
- Implements Audit, Controls and Security
- Directs Contracts and Agreements
- Feeds Project Management

INFORMATION TECHNOLOGY

IT PROJECTS

- ▶ Centralized Contact Management System for both associates and other systems to manage and communicate with customers
- ▶ Secure Web-Portal for customer access to the Organizations website and subsequent applications/services.
- ▶ Document Management System for critical document archival and retrieval

INFORMATION TECHNOLOGY

IT PROJECTS (continued)

- ▶ Accounting System assessment
- ▶ Assessment System rewrite
- ▶ Web-based WC apps allow agents/carriers to manage Assigned Risk and Unit Statistical Reporting
- ▶ Industry Data Collection enhancements
- ▶ NCRF Information System
- ▶ Insolvency processing system enhancements (IGA)

NORTH CAROLINA RATE BUREAU