

November 12, 2003

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance
Residual Market Rate Filing

The North Carolina Rate Bureau submitted a workers compensation residual marketing rate filing to the North Carolina Commissioner of Insurance on August 29, 2003.

The filing proposed an average change of 19.5% from rates effective April 1, 2003. By industry group, the proposed changes were: Manufacturing, 19.6% increase; Contracting, 15.4% increase; Office & Clerical, 21.3% increase; Goods & Services, 20.9% increase; and Miscellaneous, 23.8% increase.

As a result of negotiations with the North Carolina Commissioner of Insurance, a Settlement Agreement and Consent Order has been approved modifying the rate change to 5.0% relative to the rates currently in effect. The rates will be adjusted by industry group and shall be effective April 1, 2004, for new and renewal policies. Exhibits reflecting this change will be available by early December.

Attached is a copy of the press release from the Department of Insurance regarding the settlement.

We will provide a copy of the approved filing to the Home Office of each member insurance company or insurance company group in the manner previously requested by each company or group.

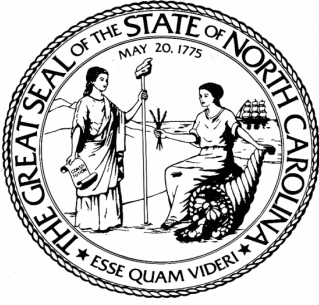
Sincerely,

Susan M. Taylor

Director, Workers Compensation

Attachment

C-03-9



DEPARTMENT OF INSURANCE

NEWS

Jim Long
Insurance Commissioner

For Immediate Release
November 6, 2003

Contact: Chrissy Pearson
(919) 733-5238

Workers Comp Rate Settlement Avoids Large Increases

Long Negotiates Potential Savings of \$92 Million

RALEIGH — Despite industry's request for steep increases in workers compensation rates, North Carolina businesses stand to save a potential \$92 million due to a lower negotiated rate, Insurance Commissioner Jim Long announced today. Long signed a settlement agreement this week that sets workers compensation rates 1 percent lower for the voluntary market and only 5 percent higher for assigned risk rates.

The settlement comes after weeks of negotiations with the organization that represents all workers compensation insurance companies in the state, the North Carolina Rate Bureau (NCRB). The NCRB files for rate changes on behalf of its member companies; the Department of Insurance, headed by Long, must review any proposed change and approve it. This year the NCRB requested an 8.2 percent increase in rates for voluntary loss costs and a 19.5 percent increase for the assigned risk rates. Long expressed satisfaction in the lower numbers agreed upon.

“Over the years, the Rate Bureau and I have bumped heads over just what kind of rate changes are appropriate for the workers compensation industry,” he said. “It’s always a pleasure to negotiate a rate that we both can be satisfied with — and more than \$90 million in savings to North Carolina businesses over the original proposed rate change definitely makes me happy.”

Workers compensation business is split into two categories — voluntary market and assigned risk. The voluntary market refers to policies sold voluntarily to businesses. The assigned risk policies are sold to businesses that may not be as attractive to insurance companies and are considered to be a higher risk. Because businesses are required to carry workers compensation insurance, insurance companies must offer policies to these “unattractive” businesses. They do so by offering policies in the assigned risk category.

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History of North Carolina Workers Comp Rate Filings

Year of Filing	Year Effective	Percent Requested	Percent Approved	Estimated Savings
1985	1986	12.9%	7.5%	\$12,362,598
1986	1987	12.8%	5.8%	\$24,104,220
1987	1988	16.8%	15.9%	\$ 3,521,772
1988	1989	0.0%	0.0%	-
1989	1990	16.8%	9.0%	\$39,327,912
1990	1991	29.3%	18.9%	\$58,026,800
1991	1992	41.8%	15.8%	\$165,144,980
1992	1993	40.3%	33.0%	\$46,369,600
1993	1994	15.5%	9.3%	\$39,274,582
1994	1995	0.0%	0.0%	-
1995	1996	-15.4%	-15.4%	\$90,401,735
1996	1997	-13.7%	-13.7%	\$80,994,933
1997	1998	-1.1%	-1.1%	\$7,239,686
1998	1999	0.0%	0.0%	-
1999	2000	3.4%	0.0%	\$24,464,307
2000	2001	4.6%	4.6%	-
2001	2002	-1.2%	-1.2%	-
2002	2003	0.25%	0.0%	\$2,090,646
2003	2004	9.1%	-0.5%	\$92,147,074
Total				\$685,470,846

Notes: Savings 1985-1994 Filings = Requested minus Approved

Savings 1995-1998 Filings = Approved

Savings 1999-2000 Filings = Requested minus Approved

Savings 2001 = Approved

Savings 2002 Filing = Requested minus Approved (savings from assigned risk)

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