



# NCRB

North Carolina Rate Bureau  
2019 Annual Report



# Rate Bureau

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## General Organizational Information

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 Raleigh, NC 27616

## 2019 Annual Meeting

The annual meeting of member companies of the North Carolina Rate Bureau will be held October 8, 2019, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

**CORE VALUES**

*Commitment*

*Integrity*

*Respect*

*Talents*

*Ownership*

*Consistency*

## Management Contacts

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# General Manager's Report



**Ray Evans**  
General Manager

The Rate Bureau began 2019 with an ambitious list of goals and objectives. The activities leading to achieving these goals and objectives center on five significant areas:

- Adequate rates and up-to-date rules, manuals and forms for each of the lines of insurance for which we are responsible
- Increased efficiencies for the Rate Bureau to make it easier for our customers to work with us
- Commitment to continually improve effectiveness and control of costs for Bureau operations

- Improved communications with Bureau committees
- Optimize effectiveness of our vendor management strategy

As you read details on the following pages, 2019 has been a very successful year, as we have achieved or made great progress on each of these goals. Rather than spend time with an “executive summary” outlining these accomplishments, I am writing about some of the challenges that we have overcome.

Perhaps the largest challenge, which impacts all goals and objectives, is the “generational change” we have faced within our organization. Over the past few years, a significant number of our most experienced associates have retired or sought employment elsewhere. Part of this challenge is that, with an ever-expanding electronic environment, we have been required not only to replace a person, but also to analyze requirements and responsibilities of each position and then look forward to imagine how it will change, how it will impact other positions and what expertise will be required over the next few years. Joanna, now an old-timer as a five-year veteran, has assembled a great management staff, including Jarred Chappell, Andy Montano, Rebecca Williams, Natalie Linares, Allison Smart, Natasha Sumter, Lynne Mays and Latimia Roberson-Hill, enabling us to make the progress we enjoy. We are now, for management and supervision, well-staffed for many years into the future.

A second big challenge has been the budget. It became apparent in late summer that the Rate Bureau was accomplishing more than anticipated when the budget was approved by the Governing Committee last December. As an axiom in Rate Bureau budgeting, we do not want to hold members’ money any longer than is necessary. So, since our goals were aggressive—we were attempting to make a filing in each line and to create a new product (Flood)—the budget request was moderated by an assumption that partial success would be a success.

As it has turned out, we have made the filings we envisioned, including the new flood program. Plus, a rate hearing has been scheduled for our homeowners filing. All of these combined have added approximately \$3.5 million in non-budgeted expenses, for which the Governing Committee approved a budget amendment in August.

A third significant challenge involves the generational change that has occurred in the ranks of the folks we count on as advisors and experts in the rate-making process. Most of these folks are consultants that we hire to provide expert testimony and assistance for filings and rate hearings, including actuaries, economists, modelers and attorneys. Though they are experts in their fields, many of the newcomers have had minimal experience testifying in a courtroom. As a result, our counsel have spent a great deal of time preparing them for direct testimony, cross examination and rebuttal testimony in the upcoming homeowners hearing.

Another challenge has been managing the nearly 60 vendors that we use, from software developers to the experts I just mentioned. We have strengthened our requirements for these vendors to encompass security, definitive contracts, a statement of work, a schedule of deliverables and negotiation of costs. As such, it is not unusual for agreements of this complexity to be quite lengthy. We do not take these situations lightly, and the negotiations and preparations surrounding them take considerable effort.

A major milestone for the year was the filing of the Personal Flood Program. The Property Flood Subcommittee, a host of expert consultants and our own skilled staff, have assembled a private flood insurance program, pretty much from scratch, of which we are very proud.

Not to be overlooked in a year full of achievements was the successful second year hiring of two interns from the risk management and insurance departments of two North Carolina universities. This summer we had Aliyah Adams and Alex Allen with us, who used their internship to gain valuable insight into the Bureau’s processes and daily tasks. We boast three key takeaways from this program. One is that we have now hosted four successful internships, hopefully offering experience that will jumpstart their future careers. Two, the interns’ energy and enthusiasm are infectious, and their hunger for learning motivates all of us. And three, working and interacting with these young scholars gives me hope for the future.

It has been a good year. We could not have accomplished so much without a great staff, the support and guidance of the Governing Committee and all of our many committee members and the assistance of a host of consultant experts. Thank you to all of you.

A handwritten signature in black ink that reads "Ray Evans". The signature is written in a cursive, flowing style.

# Message from The Chair of the Governing Committee

The North Carolina Rate Bureau celebrates continued success in 2019, driven by the dedication and leadership of the Rate Bureau staff; our counsel, Young Moore & Henderson, and those individuals who serve on the Governing Committee and the various Rate Bureau Committees and Subcommittees. Thank you!

The Rate Bureau continues to make progress toward establishing adequate rate levels. In October 2019, a +1.6% overall rate level increase will implement for Private Passenger Automobile, which includes a material improvement in rate adequacy for the liability coverages. Following the implementation of a +4.8% rate level increase for Homeowners in October 2018, the Bureau submitted a filing requesting a 17.4% increase, which is scheduled for hearing on October 2, 2019. Notices of hearing have been issued on the pending Mobile Home filings, which include requested increases of 19% for MH(C) and 19.9% MH(F). A Dwelling filing has recently been submitted that includes updates to key rating plans and adoption of many aspects of the ISO 2014 countrywide program, including a new endorsement for limited water backup and sump overflow or discharge.

The Bureau completed a re-write of the North Carolina Workers Compensation Insurance Plan, effective March 1, 2019. And in April, mandatory electronic payments for assigned risk applications were implemented, which has reduced the processing time for assignments by 48% and allows for payment to be sent directly from the agent to the assigned carrier. The Workers Compensation rate filing this year will likely see another decrease in loss costs due to improvement in medical expenses resulting from the 2011 Workers Compensation Reform Act and subsequent fee schedule adjustments.

The NCRB Flood Subcommittee, comprised of eight member companies, engaged the top national flood experts in the industry to develop a private Flood Program for North Carolina that will be completed and filed this year.

These highlighted accomplishments, and many others not mentioned, help North Carolina to remain a viable insurance market for consumers and the industry alike. It has been my pleasure, and a true privilege, to serve as the Chair of the Governing Committee for the past two years. THANK YOU! to my fellow committee members and the Rate Bureau staff for the partnership and support.

**Jennifer Jabben**  
Allstate Insurance Company  
Chair of the North Carolina Rate Bureau Governing Committee



**Jennifer Jabben**  
Chair, NCRB Governing Committee

# North Carolina Rate Bureau Constitutional Committee Members

## Governing Committee

Members	Representative
Allstate Insurance Co*	Jennifer Jabben
American Home Assurance Co	Ira Feuerlicht
Builders Mutual Insurance Co	Chris Wetzel
Erie Insurance Exchange	Jon Bloom
Hartford Accident & Indemnity Co	Eric Mize
Liberty Mutual Insurance Co	Mark Ford
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
National General Insurance Co	Art Lyon
Nationwide Mutual Insurance Co	Thomas E. Souder
Progressive Casualty Insurance Co	Kevin W. McGee
State Farm Mutual Automobile Insurance Co	Steve Harr
Travelers Indemnity Co	Robert J. Aaron
Public Members	John K. Wei William D. Edgar, Jr.

## Property Committee

Members	Representative
Allstate Insurance Co	Matthew Berry
Amica Mutual Insurance Co	James E. Sherring
Erie Insurance Co	Darrin Birtciel
Hartford Accident & Indemnity Co	Eric Mize
Members Insurance Co	Jason Ivers
Nationwide Mutual Insurance Co	Nick Sizemore
NC Farm Bureau Mutual Insurance Co	Holly Reston
Pennsylvania National Mutual Casualty Insurance Co	Justin Hays
State Farm Mutual Automobile Insurance Co*	Bob Messier
Travelers Indemnity Co	Lois Cappellano
United Services Automobile Association	Albert Soto
Unitrin Auto & Home Insurance Co	Robert Zarter

## Automobile Committee

Members	Representative
Allstate Insurance Co	Gary Weirzbicki
Government Employees Insurance Co	Monica Grillo
Hartford Accident & Indemnity Co	John Bergan
Liberty Mutual Insurance Co	Mark Ford
National General Insurance Corporation	Art Lyon
Nationwide Mutual Insurance Co	Christine Hague
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Progressive Casualty Insurance Co	Kevin W. McGee
State Farm Mutual Automobile Insurance Co*	Steve Harr
Travelers Indemnity Co	Drew Nonnweiler
United Services Automobile Association	Alan Chow
Unitrin Auto & Home Insurance Co	Robert Zarter

## Workers Compensation Committee

Members	Representative
American Home Assurance Co*	Ira Feuerlicht
Amerisure Insurance Co	Eric Yskes
Amguard Insurance Co	Marisue Newman
Builders Mutual Insurance Co	Chris Wetzel
Key Risk Insurance Co	Doug Ryan
Liberty Mutual Insurance Co	Christopher Matt
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Penn National Security Co	Lynette M. Prosser
Travelers Indemnity Co	Joe Stratton
Zurich American Insurance Co	Jim Kaynish

A special thanks to all who participated in committees, subcommittees and task force groups for the North Carolina Rate Bureau in 2019.

\*Chair

# Insurance Operations



**Joanna Biliouris**  
Insurance Operations  
Chief Operating Officer



**Natasha Sumter**  
Regulatory Manager



**Amy Tart**  
Business Project  
Coordinator



**Rebecca Williams**  
Actuary

Since our last report, the Insurance Operations group has continued to focus on growth in our technology offerings, leadership development and level of filing activity. We remain committed in our objectives to achieve rate adequacy in all lines of business, improve operational effectiveness and efficiency and develop a skilled workforce to fulfill the needs of our members.

In our efforts to achieve rate adequacy in all lines of insurance, the North Carolina Rate Bureau (Bureau) filed for an increase in private passenger automobile rates and received approval by settlement agreement of a 1.6% increase. Similarly, the Bureau filed for an increase in homeowner rates, which will go to hearing in October 2019. Our two Mobile Home Programs were modernized, rate increases were filed, and to date, are still pending at the Department of Insurance. In addition, the Bureau made 16 filings related to workers compensation rates, rules and forms, including a complete rewrite of the Workers Compensation Insurance Plan and incorporation of a requirement for electronic payment of all assigned risk application premiums, and decreases to voluntary loss costs and assigned risk rates. In total, the Bureau made 29 rate, rule and form filings with the North Carolina Commissioner of Insurance since our last report.

Succession planning and leadership development continue to be a priority at the Bureau. With enhanced technology offerings and staff attrition, the need for training on new processes and systems is essential in cultivating skillfully talented associates. We are concentrated on enhancing our internal training programs and developing external training opportunities for our industry partners. As such, our Regulatory Manager and Training and Development Manager are vital roles for ensuring that our training and filing initiatives are successful.

The Bureau completed a major initiative earlier this year to incorporate a fully electronic payment platform for assigned risk premiums, which improved processing time for applications by 48% and eliminated many financial processes needed to handle check payments. Another initiative realized this year was the implementation of a dashboard for real-time tracking of Key Performance Indicators (KPI) ranging from

types of workers compensation disputes, assigned risk volume by agent and average turn time for work processing to volume of policy and unit stat files reported along with associated edits and inquiry statistics from our information center. The ability to monitor all functional areas of the Bureau in real time is allowing us to manage workload and quality of service more effectively.

Looking ahead, we are focused on several strategic initiatives to further enhance our members' experience with the Bureau. We are committed to developing products that meet industry needs and will work to make more frequent filings in all lines of business, with the goal of moving us closer to rate adequacy.

North Carolina will be the first state to develop a private flood program to be available statewide. We have spent over a year collaborating with industry experts to develop a sophisticated rating and pricing model as well as policy forms to meet the needs of North Carolina homeowners. Our Flood Subcommittee has been instrumental in supporting this effort with their considerable knowledge of the flood product and industry needs.

The Bureau is also developing Manage Data, which will combine two existing applications (ManagePolicy and ManageUSR) together into an intuitive dashboard. Manage Data will provide our members with a real-time solution for accessing and correcting data, searching employers' historical information, creating a personalized work queue, viewing data submission-related analytics and receiving timely notifications of deadlines, events and other items of interest.

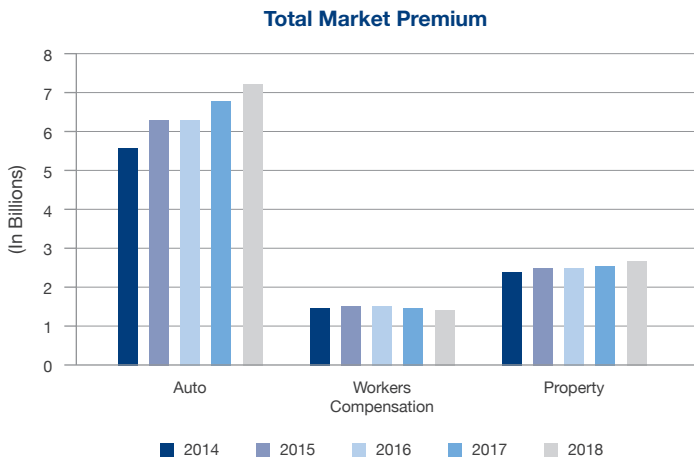
By all measures, 2019 has been another successful year for the North Carolina Rate Bureau. We could not accomplish all of these achievements without the efforts of our talented and dedicated Bureau associates, committee members, counsel and consultants. With several new product offerings and technology initiatives on the horizon, we can expect another exciting year ahead as we further our ongoing commitment to the industry.

# Membership

Total Rate Bureau Membership as of 6/30/2019: 783

## Calendar Year 2018

Line of Business	# of Members	Total Written Premium
Automobile	666	\$7,225,935,568
Property	660	\$2,681,759,018
Workers Compensation	550	\$1,426,450,422



# Personal Lines

## Automobile



**Andy Montano**  
Personal Lines Director

The Rate Bureau is required to make a Private Passenger Auto rate review or filing each year by February 1. This year, the Rate Bureau filed an overall +7.6% rate level change for non-fleet private passenger automobiles that included +22.9% for Liability coverages and -9.1% for physical damage coverages, an average rate level change for motorcycle liability coverages of 2.8%, revised deductible relativity factors, revised class plan factors and miscellaneous rate, rule and coverage changes.

Following negotiation, the Rate Bureau and the Commissioner of Insurance agreed to settle the 2019 private passenger automobile insurance rate filing for an overall 1.6% rate level increase (11.3% increase in liability coverages and 9.1% decrease in physical damage coverages). The settlement included other rate and rule changes that are outlined in NCRB Circulars A-19-1 and A-19-2, as well as a provision that the Bureau would not file a rate change in 2020. The rate and rule changes are effective October 1, 2019.

The Automobile Committee held its December 2018 meeting at the Vehicle Research Center, which is operated by the Insurance Institute for Highway Safety (IIHS) and the Highway Loss Data Institute (HLDI). The IIHS is an independent, nonprofit scientific and educational organization dedicated to reducing the losses—deaths, injuries and property damage—from motor vehicle crashes. HLDI collects loss data which includes companies that represent 85% of private passenger automobile insurance in the U.S. During the committee’s visit to the Vehicle Research Center, the Committee had the opportunity to tour these facilities and observe a crash test.



## Property

On December 20, 2018, the Rate Bureau filed with the Commissioner a proposed average Homeowners rate level change of 17.4%. The filing included rate changes varying by form and territory, revised windstorm or hail exclusion credits, revised wind mitigation credits and revisions to the base amount of insurance and base deductibles. The Commissioner called for a hearing scheduled for September 4, 2019. The Department filed a motion for continuance of the hearing to January 27, 2020, and the hearing officer ordered a continuance to October 2, 2019. Bureau staff, consultants and counsel are preparing for that Homeowners rate hearing. On February 13, 2019, the Rate Bureau filed with the Commissioner proposed rate changes to the Bureau's two Mobile Home programs. The Bureau filings proposed a 19.0% change for the MH(C) Policy program (19.6% change for property coverages and 0% change for liability coverages), and 19.9% change for the MH(F) Policy Program (19.9% change for owners policies and 2.4% change for tenants policies). The Bureau proposed updates to territory definitions consistent with Homeowners territory definitions for both MH(C) and MH(F) programs. The filings also presented new deductible options, revised deductible factors and the introduction of a new age of mobile home rating variable. The Commissioner scheduled a hearing on the MH(C) filing for December 2, 2019, and a hearing on the MH(F) filing for January 6, 2020.

On August 14, 2019, the Rate Bureau filed with the Commissioner a proposed 19.2% rate change for Dwelling Fire and Extended Coverage. This filing included changes to the amount of insurance factors and introduced a new age of construction rating variable. This filing also incorporated program revisions from the 2014 Multi State Dwelling Program developed by Insurance Services Office (ISO).

## Flood

The Bureau continues to make strides on preparing for a private market, residential flood program to be filed with the Commissioner later this year. This project has been made possible by the Bureau's partnership with various vendors who are experts in their fields—including ISO for policy forms, Milliman for the rates and rating structure and KatRisk for catastrophe modeling.

KatRisk mapped the state of North Carolina using over 140 million different grid location points. These unique grid points will allow rates to be generated for nearly each individual property, eliminating the traditional territory structure. This approach reflects a paradigm shift to more precise rating that more closely matches price with risk. The map shown below gives a picture of estimated flood risk across the state and combines the two separate perils of inland flooding and storm surge. Inland flooding occurs due to intense rain fall and/or runoff, whereas storm surge occurs due to rising seas as a result of atmospheric changes and wind associated with storms.

Next steps for the flood program include filing with the Commissioner for approval. In addition, the Bureau is expanding the Insurance Data Collection (IDC) system and expense experience collection to include flood information. Lastly, the Bureau continues to monitor progress at the federal level with respect to the National Flood Insurance Program (NFIP).

## Safe Driver Insurance Plan

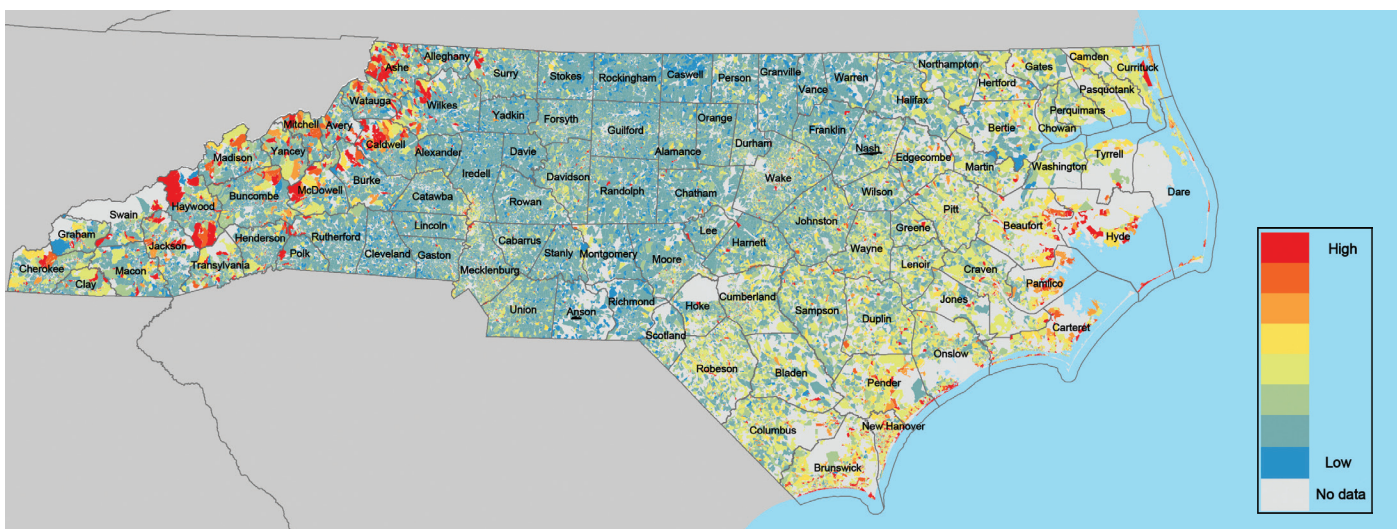
As required in the General Statutes, the Bureau continues to provide a mechanism for policyholders to appeal "points" that have been charged as a result of at-fault accidents. The Bureau receives an average of 50 disputes per year, of which most are resolved without a hearing. Below is a summary of the outcomes of the disputes that required a hearing.

	2017	2018	2019
In Favor of Insured	4	1	1
In Favor of Company	3	1	1

## Legislation

During the 2019 long session of the General Assembly, many bills were being monitored for possible impact on the Bureau; however, at the time of this publication, no legislation impacting private passenger automobile or residential property have been ratified.

Flood Risk Map





# Workers Compensation



**Jarred Chappell**  
Workers Compensation  
Operations Director



**Latimia Roberson-Hill**  
Information Center  
Supervisor



**Lynne Mays**  
Assigned Risk & Underwriting  
Operations Supervisor



**Natalie Linares**  
Data Services Manager

## Operations

The Workers Compensation Operations department has responsibilities pertaining to the maintenance and equity of a thriving workers compensation market in the State of North Carolina. Within the department, we are divided into three operational areas:

- Assigned Risk and Underwriting Services
- Data Services
- Information Center

Since our last report, the Workers Compensation Operations department has seen several exciting changes that should improve the experience for many of our stakeholders.

- **E-Payments**—The new E-Payment platform was launched in April to allow for a more efficient and user-friendly method of paying premium on assigned risk applications with no Bureau involvement. This has led to a 48% decrease in processing time for assigned risk applications.
- **Manage Data**—In March, we began development on a new data reporting platform for carrier partners to submit their policy and USR data electronically, giving them increased functionality and more consistency with other data collection organizations.
- **Manage AR Enhancements**—The primary system for receiving assigned risk applications underwent major enhancements to accommodate the E-Payment platform. More enhancements are planned for late 2019 to make it more intuitive and encourage accurate applicant information. This should further improve processing time and accuracy of residual market policies.
- **Carrier Improvements to Fine Data and Reports**—Our Data Services team is in the process of reviewing our data fining procedures in an effort to provide more clarity and consistency for our carrier partners.
- **Cherwell Enhancement**—Improvements to our customer service point-of-contact software were implemented in early 2019 to allow our Information Center to provide more accurate and timely responses to our customers.
- **Manager, Data Services**—In April of 2019, Natalie Linares was promoted to Manager, Data Services. Her extensive experience in the industry with both NCRB and NCCI has proven to be an incredibly valuable asset to the team.

## Assigned Risk and Underwriting Services

The North Carolina Workers Compensation Insurance Plan (Plan) sets forth the rules for the residual market for workers compensation insurance in North Carolina, and the Bureau is the administrator for the Plan. In 2019, the Plan was rewritten to modernize Plan definitions, revise the payment methods rules requiring electronic submission of deposit premium and clarify the effective date rules.

The Assigned Risk and Underwriting Services team is tasked with the analysis and assignment process on about 13,000 applications annually. On average in 2018-2019, they assigned 1,037 applications to assigned risk carriers per month, with that number peaking in the spring.

### Utilization Statistics

Year	Month	Total Applications	Declined	Approved
2019	May	1,301	197	1,196
	April	1,233	183	1,149
	March	1,228	154	1,146
	February	1,150	123	1,091
	January	1,143	132	1,070
2018	December	763	91	720
	November	1,009	136	946
	October	1,260	151	1,194
	September	889	114	836
	August	1,178	122	1,119
	July	1,048	123	993
	June	1,147	136	1,082

The Bureau works with three servicing carriers and eight direct assignment carriers to place the applicants requesting coverage in the residual market. Our servicing carriers are now in the third year of a three-year contract, and the bid process is underway for the next three-year term starting in 2020.

A servicing carrier is an insurer authorized to receive Plan assignments and provide coverage to eligible employers on behalf of those participating companies subscribing to the bylaws of the National Workers Compensation Reinsurance Association NFP, incorporated as part of the Plan in North Carolina. The current servicing carriers are

- Amguard Insurance Company
- LM Insurance Corporation
- Travelers Property & Casualty Company

The Rate Bureau also works with carriers authorized to receive assignments directly under Option 1 of Rule 4-A-4 of the Plan. The current direct assignment carriers are

- ACE American Insurance Company
- American Interstate Insurance Company
- American Zurich Insurance Company
- Auto Owners Insurance Company
- Builders Mutual Insurance Company
- Cincinnati Insurance Company
- Continental Casualty Company
- Hartford Underwriters Insurance Company

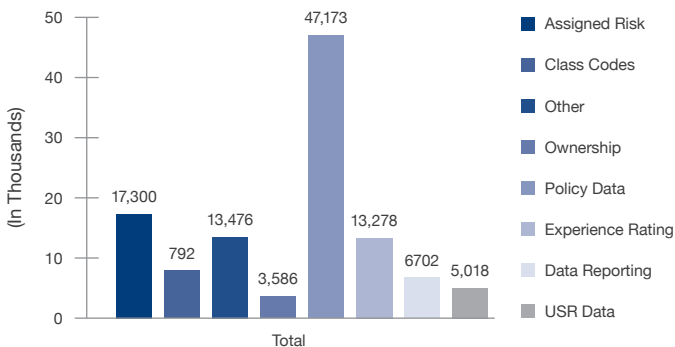
The Assigned Risk and Underwriting Services team is also responsible for researching and issuing rulings on ownership and class code questions from the workers compensation market in North Carolina, both residual and voluntary. Our team reviews each of these work items to make sure that data is reported accurately for experience modification calculation and rate development. Overall, this team handles an average of 8,944 work items each month.

Automation has been a focus of this team in 2018-2019, and several of the projects that we launched this year have that in mind. Enhancements to Manage AR and Spectrum (our core operating system) were made to reduce the number of manual work items and improve efficiency.

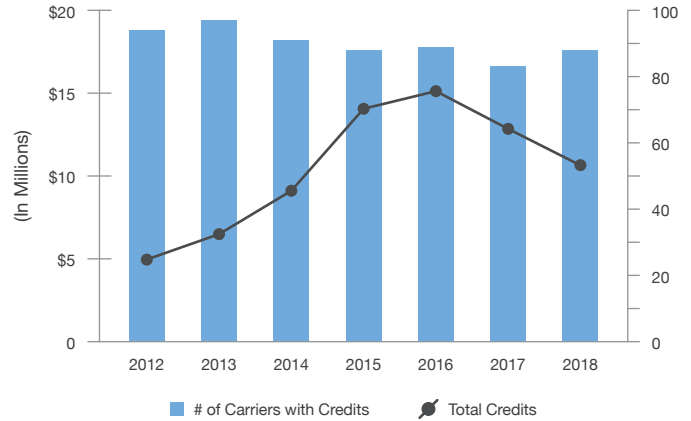
### 2018-2019 Statistics

New Applications	13,299
Applications Submitted Electronically	99%
Average Premium Size	\$2,750
Total Assigned Risk Premium	\$78,394,198
Ownership Changes Processed	3,586
Work Items Annually	107,325

### Work Item Categories 7/1/18–6/30/19



### Take-Out Credits



### 2018-2019 Statistics

Policy Transactions Processed	769,175
USR Transactions Processed	234,954
Annual Take Out Credits	\$10,691,615
Experience Modifications Generated	39,109

## Data Services

The Data Services team members are our technical experts that oversee the daily collection and management of Policy Data and Unit Statistical Data. Throughout the 2018-2019 year, the team collected information on 769,175 policy-related transactions and 234,954 unit statistical-related transactions.

Data Services is the primary point of contact to support our member carriers with any data reporting needs they may have. In order to maintain the integrity of our data, this team works closely with our member companies to ensure ease and accuracy of reporting. Throughout 2019, Data Services has been working diligently on development of a new reporting platform for member companies to submit data to the Bureau. The team also began analysis of our entire Data Quality program to ensure that errors and fines are properly communicated to the carriers.

The Take-Out Credit program is an important aspect of our assigned risk plan that the Data Services team administers. In 2018, credits totaled \$10.7 million between 88 carriers.

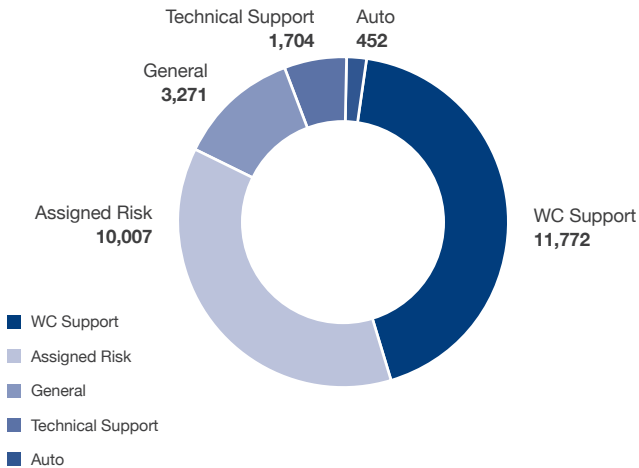
The Data Services team is also our subject matter expert for our Spectrum system as well as many of our web applications. They work closely with our IT department and external software developers to provide user acceptance testing resources for new releases and periodic improvements.

## Information Center

The Information Center is the primary point of contact for NCRB, as well as NCRF and NCIGA. This team handles over 2,300 inquiries per month from carriers, agents and employers through phone or email. In 2019, the Information Center took on the large task of reviewing how they classify incoming service requests and developing a more concise system. These inquiries range in subject from assigned risk applications and experience modifications to carrier insolvencies and technical support, illustrating how members of the Information Center team have to be subject matter experts in everything that we do within the organizations.

In early 2019, the Information Center updated their Cherwell Service Management System. The changes made to this system will allow our team to provide accurate and timely service to our clients while also gathering more precise data on clients' needs. By learning from this data, we are able to enhance the overall experience for our customers with better educational opportunities, more web-based tools, enhancements to our web application and improved services.

**Support Ticket Volume by Top 5 Categories**



**2018-2019 Statistics**

Call Tickets Generated	16,364
Email Tickets Generated	12,018
Top Category	Workers Compensation Support

## Workers Compensation Regulatory Activity

2019 is a long session for the North Carolina General Assembly. New legislation is typically considered during the long session, as the primary focus during short sessions is on the budget and legislation that passed the house of origin during the long session. Although there is little pending legislation to report on, there are a number of items of interest that continue to be monitored by the Bureau.

**House Bill 520**—Filed March 28, 2019: Firefighters Fighting Cancer Act, creates a presumption that certain cancers are occupational diseases covered by the Workers Compensation Act. This bill has advanced from the House, has passed the first reading in the Senate and was referred to the Committee on Rules and Operations of the Senate on May 6, 2019, but has made no movement since.

**House Bill 573**—Filed April 3, 2019: Provides first responders benefits under the Workers' Compensation Act for mental or nervous injuries without the accompaniment of physical injury under specific circumstances. This bill passed the first reading on April 4, 2019, and was referred to the Committee on Judiciary at that time, but made no further progress.

**House Bill 220**—Filed February 27, 2019: Department of Insurance Technical Corrections bill includes a technical correction to allow

consent to rate on workers compensation policies, which was inadvertently removed in previous legislation.

**North Carolina Workers Compensation Opioid Task Force**—This task force was established in February 2017 by the North Carolina Industrial Commission (NCIC) at the direction of the North Carolina General Assembly. The NCIC adopted *Rules for the Utilization of Opioids, Related Prescriptions, and Pain Management in Workers' Compensation Claims*. While most of these rules became effective on May 1, 2018, rules requiring health care providers to check the Controlled Substances Reporting System went into effect November 1, 2018. In continued efforts to combat the opioid epidemic, the Commission will monitor for effectiveness and amend the rules as needed going forward.

**Employee Classification Section**—Misclassification of employees continues to be a problem throughout the country. In an effort to curtail this activity in North Carolina, the Employee Classification Section was established in December 2017 and became a permanent function of the NCIC. The Employee Classification Section was created to investigate the intentional misclassification of employees as independent contractors in an effort to avoid tax liabilities and evade the requirement for workers compensation coverage. NCGS 143-764(a) (5), which established the Employee Classification Section, requires that a report be made to the Governor and the Joint Legislative Commission on Governmental Operations by October 1 each year. This report is to include the number of identified misclassifications and the amount of back taxes, wages, benefits and penalties assessed and collected. In Fiscal Year 2017-18, the Employee Classification Section's work with the Compliance and Fraud Investigation Section of the NCIC identified businesses engaged in employee misclassification, resulting in over \$4.5 million in penalties and \$576,501 in adjustments. \$611,742 in penalties has already been collected. The remaining \$3.3 million in assessments are pending and/or in litigation.

**Fraud and Compliance**—Ongoing efforts since inception by the NCIC to decrease fraud and noncompliance within North Carolina's workers compensation industry have been evidenced by the over \$8 million in penalties collected from companies that failed to carry adequate workers compensation insurance and 696 criminal charges issued. In a bulletin issued by the NCIC in January 2019, the Commission reported that in just the first two quarters of Fiscal Year 2018-19 over \$3.2 million in penalties had been collected and 289 criminal charges issued.

**Workplace Accidents at an All-Time Low**—According to a study released by the state Department of Labor in November 2018, non-fatal workplace injury and illness rates in North Carolina are at an unprecedented low. The overall rate for 2017 was 2.3 cases per 100 full-time workers. This has been on a steady decline since 2001, when the rate was 4.8. The national rate at the time of this release was 2.8. The 2017 injury and illness rate for construction was 1.8, below the national rate of 3.1 and manufacturing was 2.9, below the national rate of 3.5.

**Decrease in Medical Costs**—According to a study released by the Workers Compensation Research Institute (WCRI) in November 2018, medical payments per workers compensation claim in North Carolina have decreased 6% per year since 2013. The decrease is attributed to the new medical fee schedule rules. Reimbursement based on a percentage of Medicare under House Bill 92 passed in July 2013 and became effective in 2015. Medical payments per claim with more than seven days of lost time in North Carolina were similar to the median of 18 states for 2014 claims at 12 months and 36 months of experience. In 2017, North Carolina was 19% lower than the median of the same 18 states.

**Medical Marijuana**—Marijuana is still illegal at the federal level as a Schedule I drug under the Controlled Substances Act. There remains ongoing legalization activity across the country, mostly at the state level. Currently, marijuana is legal recreationally in 10 states plus D.C. and legal medically in 33 states plus D.C. CBD oil/non-psychoactive forms of marijuana are legal in an additional 14 states under certain circumstances.

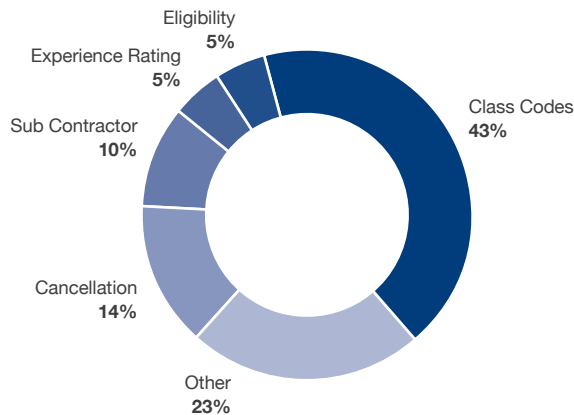
North Carolina has legalized the CBD oil/non-psychoactive form of marijuana. The North Carolina Industrial Hemp Pilot Program grants a license to grow hemp and produce CBD oil. House Bill 401 was proposed in March 2019 to legalize medical marijuana in North Carolina but did not survive cross-over. A similar bill was proposed in 2017 and not acted upon by the Senate Health Committee.

**Retirement Living Centers and Nursing Homes**—Effective April 1, 2019, North Carolina implemented changes to the classification treatment for the Retirement Living Centers and Nursing Homes that are consistent with changes being made nationally. These changes included the elimination of National Code 8825 – Retirement Living Centers – Food Service Employees, State-Specific Code 8848 – Domiciliary Homes – All Employees and State-Specific 8849 – Nursing Homes – All Employees at the end of a Two-Phase Transition Program.

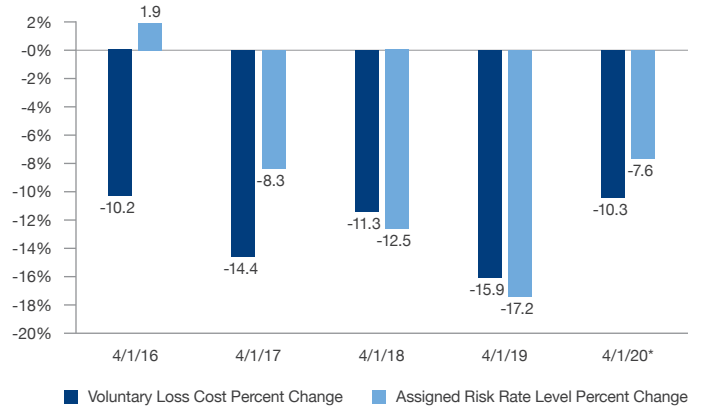
Prior to 1995, “Domiciliary Homes” included Family Care Homes, Homes for Aged and Disabled and Rest Homes. In 1995, Senate Bill 502 established new terminology and definitions for operations for Domiciliary Homes. The North Carolina Department of Health and Human Services now refers to these operations as Adult Care Homes. Licensing requirements provide for adult care in a variety of operations that include Retirement Living Centers, Adult Care Homes and Nursing Homes and Convalescent Care Facilities. Classifications of adult care operations in these industries will be assigned to National Code 8824 – Retirement Living Center – Health Care Employees or National Code 8826 – Retirement Living Center – All Other Employees.

**Disputes**—Each year the Bureau reviews a number of disputes submitted by carriers and insureds related to workers compensation manual rules, the experience rating plan and the administration of the Workers Compensation Insurance Plan. This past year, 93 disputes were received. Of these, only 1 required a formal hearing.

**Workers Compensation Disputes by Category**  
7/1/18–6/30/19



**Workers Compensation Rate Changes**



Cumulative approved Loss Cost Change since 4/1/2016 -41.8%  
 Cumulative approved AR Change since 4/1/2016 -36.7%

\*proposed rate change

## Training and Development



**Allison Smart**  
Training & Development  
Manager

The Bureau continues to emphasize training and development as a key component to reaching our established goals and objective. Allison Smart, our new Training and Development Manager, is focused on developing and delivering new dedicated training programs to external customers as well as training initiatives for maintaining highly skilled staff to support our members.

The training department is focused on supporting the educational efforts for our new systems and technology, including our e-payment enhancement implemented earlier this year and the introduction of our Manage Data system in early 2020. The Insurance Operations Summer Internship Program continued for its second year, with two students completing a 10-week learning opportunity. Through training, observing and participating in organizational workplace experiences, the interns gained useful knowledge and professional skills associated with the following areas: Workers Compensation operations, Assigned Risk, Unit Statistical Data and Personal Lines operations.

# Shared Services

## Information Services



**Shelley Chandler**  
Chief Information Officer

Information Services continues to leverage technology advances to enhance our business processes and to fulfill the needs of our customers. Through daily operations and project work, it is our duty not only to support the organization, but to introduce innovative strategies that guarantee robust systems and applications and allow for expansion in areas where progress is desired.

In 2019, we made significant staffing changes in an effort to realign our resources for the undertaking of improved technology solutions and advanced protection of our information

systems. We now have a resource dedicated to the security posture of our organizations. Frank Lonnett moved into the role of Director, IT Information and Data Security. Frank has worked with the Organizations for nine years in the Director, Infrastructure and Operations role, and therefore has a unique perspective on our new security role. In addition to training and transitioning the Infrastructure duties to a replacement, Frank has been instrumental in moving our Security program forward. We continually evaluate new legislation surrounding privacy and cybersecurity to ensure that we are meeting necessary obligations and working to ensure our security posture remains in compliance with future legislation.

We adhere to the belief that the best defense against security risks is employee training. We provide monthly security assessments and routine phishing simulations to teach employees how to defend against common and emerging threats and how to protect the data with which they are entrusted. We continue to harden and isolate our systems by upgrading perimeter security and limiting system permissions only to those users that require access to perform their job duties. In order to predict and prevent security breaches, we remain partnered with professional security experts who conduct regular risk assessments that alert us to any risks (or threats) in advance so that we are able to remediate promptly and appropriately. In addition to internal testing, we also conduct risk assessments for our 3rd party providers to ensure that all of the data we work with is safe.

A significant amount of time is spent resolving daily issues that impact productivity so that essential processes keep moving forward. Extensive planning goes into resource allocation for IT staff; however, we remain flexible in our commitment to provide our customers with the highest level of efficiency. From an infrastructure standpoint, we have implemented projects that continually improve our environment. In 2019, we spent considerable effort upgrading hardware and operating systems, and modernizing Enterprise Services to current releases and versions. The infrastructure group remains focused on refining our disaster recovery strategy. While we have never experienced a major business interruption, it is important that we are prepared to detect and respond to potential events.

Project work also contributes to our goal of promoting efficiency through our organization and for our customers. The Software Development group works diligently to create software products that are used internally as well as by our external customers. In 2019, some of the systems released by this group included facilitating electronic payments for the Assigned Risk area, adding the flood line of business to our annual data call system and implementing a new Key Performance Indicators (KPI) dashboard.



In closing, we acknowledge that Technology is only possible with the dedication and heart of our associates. We are proud to announce that in 2019, Faye Helms, IT Service Desk Analyst, is celebrating 60 years with our organizations. She is a key asset to our Service Desk and always has a smile on her face to brighten every customer's day.

## Human Resources and Facility Services



**Vicki Godbold**  
Chief Human Resources Officer

Our Human Resources is the strategic and comprehensive approach committed to our Organization's most valued assets—our people. Facility Services provide a secure and comfortable work environment along with mail services and receptionist services. This past year, we added three additional outdoor security cameras. In HR, we contracted an outside vendor to conduct a Compensation Audit as our goal is to pay at market. The audit concluded that we are at 103% of the 50th percentile so we are paying "market" rate for our positions. We also hired three new associates and are in our second year of offering internship opportunities for two individuals working in Insurance Operations.

Our Wellness Program consists of

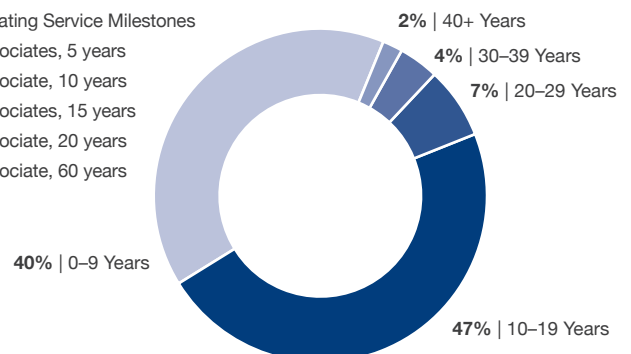
- a partnership with WakeMed Hospital;
- a partnership with YogaBlyss;
- a partnership with the NC Prevention Partners;
- annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10k steps a day;
- flu shots provided for associates on-site and
- Certification in First Aid, CPR and AED for a third of our workforce through the American Red Cross.

On-site training this year consisted of wellness seminars, weekly on-site yoga classes, management on-site training and off-site training for new management staff. Community Service involvement by our associates this year included the United Way and various charities of the associate's choice.

### Rate Bureau Years of Service

Celebrating Service Milestones

- 4 associates, 5 years
- 1 associate, 10 years
- 3 associates, 15 years
- 1 associate, 20 years
- 1 associate, 60 years



## Finance



**Edith Davis**  
Chief Financial Officer

*The financial data presented here has been modified from prior-year presentations. The prior year figures presented on this report have been changed from the previous rolling 12-month basis to calendar-year basis, and actual figures are now reported for year-to-date 2019.*

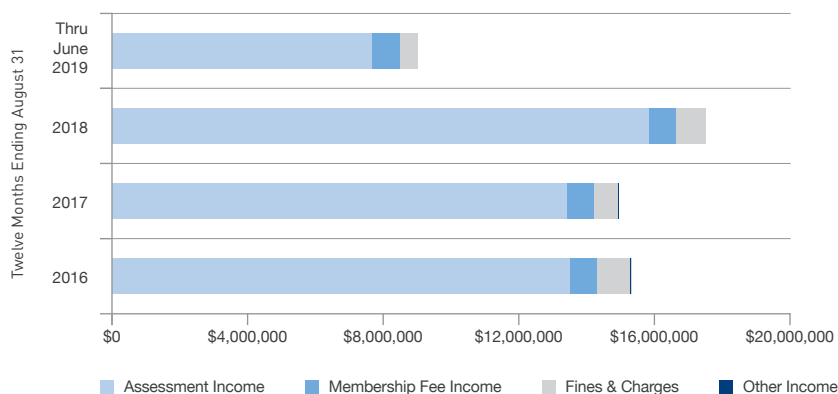
The exhibits on page 14 summarize the Rate Bureau's financial position and reflect the comparative balance sheets and income statements for the last two calendar years ending December 31 and actual figures for the calendar year-to-date through June 30, 2019 (the latest quarter ended at the time of writing this report). Continued improved claims experience and proceeds from reinsurance recoveries during the past year generated another modest increase in the restricted funds for our self-insured group medical insurance plan. Funds for retiree group insurance premiums of the Bureau's predecessor organizations continue to remain on the balance sheet as of this report, though all those obligations have been fulfilled as previously reported.

The sources of income to the Bureau remain fairly consistent over the past few years, but income increased in 2018 over 2017 and is expected to rise further in 2019 to cover expenses. Assessments to member companies represented 90% of the Rate Bureau's receipts during 2018 as reflected in the chart that follows. The annual membership fees billed in the first quarter and various fines and charges billed throughout the year were each approximately 5% of the Rate Bureau's annual income. Following a few years of decline, income from fines and charges that were initially implemented in 2015 increased significantly in 2018 and continued to trend upward during the first half of 2019.

Following a \$2 million amendment to the approved budget included in the 4th quarter 2018 assessment, the Bureau finished that year slightly under budget. These additional funds were approved to cover expenses related to several property programs initiated in 2018. In 2019, as previously detailed in this report, significant additional property program expenses were also incurred, including work related to a hearing called by the Department of Insurance related to the Homeowners rate filing filed in December 2018, which had not been included in the approval of the 2019 budget. An additional budget amendment of \$3.5 million was approved by the Governing Committee and included in the 4th quarter 2019 assessment.

The total expenses of the Rate Bureau are comprised of the direct costs related to specific activities of the Bureau as well as the allocated expenses of the departments whose services are shared with the Reinsurance Facility and the Insurance Guaranty Association. Those direct expenses continue to represent just over 73% of the total expenses of the Bureau, and the table and chart to the right show a summary of the direct and allocated expenses for the previous two years and the first half of 2019. The property programs previously mentioned were the largest drivers of the expense increases, followed by several projects to improve customer service and efficiency such

**North Carolina Rate Bureau Sources of Income**



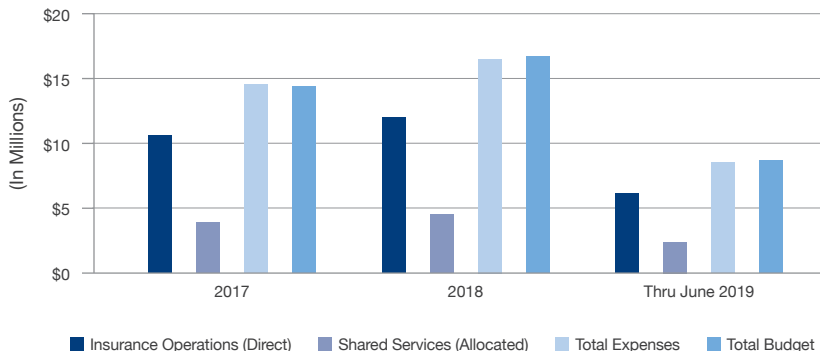
as E-Payments for workers compensation assigned risks, which went live in 2019. As in the past, the 2017 final expenses will be adjusted by other income and miscellaneous items and reapportioned to all member companies during the fourth quarter of 2019.

The audit firm of Johnson Lambert performed the annual audit for the year ending December 31, 2018, and they presented their report to the Audit Committee in March 2019. Johnson Lambert again issued an unqualified opinion on the statements of cash receipts and disbursements, noting there were no misstatements or internal control weaknesses identified during the audit, and that the significant accounting policies had been consistently applied during the current year.

Organizational risk management initiatives included the Bureau, in conjunction with its sister organizations, focusing a heightened awareness on security, training and financial controls and reviewing and updating business insurance coverages. A new invoice and document portal is in the works and should be in production by 2020, improving access and customer service to our member companies. Analysis has begun for the replacement of several aging key systems in coming years. We will continue to look for ways to modernize our processes and systems while remaining cost effective to our stakeholders and the insurance industry that we serve.

We thank our staff, the Governing Committee, committee members and counsel for all of their support throughout the year—it is truly appreciated.

**North Carolina Rate Bureau Administrative Expenses**



Administrative Expenses	2017	2018	Thru June 2019
Insurance Operations (Direct)	\$ 10,588,723	\$ 11,942,719	\$ 6,148,979
Shared Services (Allocated)	\$ 3,899,793	\$ 4,510,158	\$ 2,390,835
Total Expenses	\$ 14,488,517	\$ 16,452,876	\$ 8,539,815
Total Budget	\$ 14,358,406	\$ 16,703,623	\$ 8,672,199

## Balance Sheet

	Six Months Ended 6/30/2019	Six Months Ended 6/30/2018	Year Ended 12/31/18
<b>Assets</b>			
Cash & Investments (Unrestricted)	\$ 1,356,078	\$ 890,939	\$ 1,027,251
Cash & Investments (Restricted)	1,908,981	1,476,185	1,808,596
Assessments Receivable	-	3	-
Accounts Receivable	254,450	68,900	178,767
Other Assets	-	-	-
<b>Total Assets</b>	<b>\$ 3,519,509</b>	<b>\$ 2,436,027</b>	<b>\$ 3,014,614</b>
<b>Liabilities &amp; Fund Equity</b>			
Retiree Insurance Payable - Restricted	\$ 575,113	\$ 568,207	\$ 571,007
Other Benefits Payable - Restricted	1,333,867	907,977	1,237,589
Other Liabilities	(17,416)	(17,416)	(17,416)
<b>Total Liabilities</b>	<b>\$ 1,891,564</b>	<b>\$ 1,458,768</b>	<b>\$ 1,791,180</b>
Fund Equity	1,627,945	977,259	1,223,434
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 3,519,509</b>	<b>\$ 2,436,027</b>	<b>\$ 3,014,614</b>

## Income Statement

	Six Months Ended 6/30/2019	Six Months Ended 6/30/2018	Year Ended 12/31/18
<b>Income</b>			
Assessment Income	\$ 7,613,626	\$ 6,753,556	\$ 15,679,936
Membership Fees Income	792,000	779,500	784,250
Late Data Reporting Charges	-	8,300	7,900
Delinquent USR Charges	95,400	54,300	105,750
Policy Data Fines	459,300	352,450	756,350
Other Income	(200)	-	200
<b>Total Income</b>	<b>\$ 8,960,126</b>	<b>\$ 7,948,106</b>	<b>\$ 17,334,386</b>
<b>Expenses (Net)</b>			
Legal, Consulting & Other Outside Services	\$ 4,884,193	\$ 4,022,117	\$ 9,024,371
Salaries & Administration Expenses	1,925,528	2,019,388	4,266,531
Other Operating Expenses	1,730,094	1,654,949	3,163,015
<b>Total Net Expenses</b>	<b>\$ 8,539,815</b>	<b>\$ 7,696,455</b>	<b>\$ 16,453,916</b>
<b>Net Income</b>	<b>\$ 420,311</b>	<b>\$ 251,651</b>	<b>\$ 880,470</b>

# NCRB



North Carolina Rate Bureau

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