



NORTH CAROLINA
RATE BUREAU



2012 Annual Report

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After 20 years in the Six Forks Road location, the North Carolina Rate Bureau took occupancy on August 20, 2012, in a new building at 2910 Sumner Boulevard, Raleigh, North Carolina.

Management Contacts

NCRB Staff

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Shared Resources Staff

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General Organizational Information

NCRB Main Phone Number	919-783-9790
Website Address	www.ncrb.org
Physical Address	2910 Sumner Blvd. Raleigh, NC 27616



GENERAL MANAGER'S REPORT



Ray Evans
GENERAL MANAGER

As this year's annual report was being prepared, the Rate Bureau, Reinsurance Facility and Guaranty Association had just completed our move to a new location. While in the giant scheme of things, this was one of thousands of corporate moves each year, it was a very big event for us. Upon reflection, in many ways it represented who we are.

The move itself went smoothly, as it should have since it had been several years from inception to execution. However, the length of time was not the important component of success; it was instead the planning, investigation and collaboration that went on during this period and tackling and overcoming the unexpected issues as they arose that were the real reasons for success.

The result is a bright and cheerful environment, somewhat smaller than our previous office but, we believe, a much more efficient use of the space we have.

So how, you might ask, is this representative of the organizations? It is because our strategic goals are to educate, plan, adapt to changing conditions, involve everyone, keep our eye on the end expectations and be prudent in our choices. Those are the very things that contributed to a successful move.

Another aspect of the move is that a number of our associates with whom many of you do not interact often did much of the heavy lifting. Vicki Godbold, our HR and Administrative Services Director, was essentially the project manager. Chuck Eckstein handled the scheduling and was in charge of the physical move. Shelley Chandler, the IS Director, was responsible for the overall electronic hardware and software move as well as the co-location operations. And Frank Lonnett was the "hands-on" hardware, wiring and electronic installation detail person. They all, among others, worked long hours.

In addition to "the move," this past year has been unusual in a number of ways, even though we successfully met our primary objectives of being under budget, advocating for adequate rates, administering workers compensation assigned risk business, chairing a number of industry-related projects and effectively managing many other tasks. One of the unusual events was that, while we do not lobby, we spent a great deal of time testifying before legislative committees and responding to questions from legislators on private passenger automobile and residential property insurance matters. Then, even as the dust was settling from this, we devoted much of the summer to matters involving workers compensation insurance data and the North Carolina Industrial Commission. One of the results of this work was changes to some of the statutes governing the Rate Bureau's work. As year-end approaches, one of the unusual issues — discussions regarding workers compensation and "misclassified employees" — continues with our participation on a Governor's Task Force on the subject.

This past year, it seems, has had more committee meetings than many recent years, particularly those with residential property responsibilities. Thank you to our carrier members, our advisors and our consultants for their insight, time, guidance and enthusiasm as we traveled down some unexpected roads.

Ray Evans
General Manager

MESSAGE FROM THE CHAIR OF THE GOVERNING COMMITTEE

As I look to the end of my two-year term as chair of the Governing Committee, it's clear to me that I have been privileged to work with each of you on so many important issues for the insurance industry of North Carolina.

This year continued to be a busy one with the short session of the North Carolina General Assembly. Discussions were held on automobile, property and workers compensation insurance, and the North Carolina Rate Bureau was often asked to provide information. Rate Bureau staff was a great resource for the legislative leaders, and the information provided allowed our leaders to make better decisions and in the end pass better bills. Special thanks to those who were actively involved in this process.

In 2012, work continued on achieving a more adequate rate level for the property lines of insurance. As part of this work, the dwelling rate filing is being appealed to the North Carolina Court of Appeals, and the homeowner rate filing was made with the Department of Insurance. Special thanks to the Property Committee and the Property Rating Subcommittee for their work on these filings.

The North Carolina Rate Bureau remains effective because of the work of so many company representatives as well as the staff of the Rate Bureau. I wish to express my sincere thanks to the members of the committees and subcommittees who put in countless hours in meetings over the last year, discussing the many important issues facing the North Carolina insurance industry. I also want to thank the staff of the Rate Bureau, Rate Bureau counsel and our consultants for their continued dedication and expertise. They are an asset to the Rate Bureau and its member companies. Finally, I would like to thank you for the opportunity to lead this Governing Committee over the last two years. I have learned so much from each of you during this time.

Sincerely,

Amy Powell, Nationwide Mutual Insurance Company
Chair, NCRB Governing Committee



NORTH CAROLINA RATE BUREAU CONSTITUTIONAL COMMITTEE MEMBERS

Governing Committee	
Members	Representative
Allstate Insurance Company	Brian O'Neill
American Home Assurance Company	Ira Feuerlicht
Auto-Owners Insurance Company	Drew Klasing
Builders Mutual Insurance Company	Jerry Visintine
Hartford Fire Insurance Company	Andy Montano
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Company	Jeff Wright
Nationwide Mutual Insurance Company*	Amy Powell
N. C. Farm Bureau Mutual Insurance Company	Roger Batdorff
Progressive Casualty Insurance Company	Kevin McGee
State Farm Mutual Automobile Insurance Company	Alan Bentley
Travelers Indemnity Company	Kristina Barronton
Public Members	Max Offerman
	John Wei

Property Committee	
Members	Representative
Allstate Insurance Company	Shantelle Thomas
Amica Insurance Company	Tom Goodale
Erie Insurance Exchange	Kristopher Marrion
Kemper, A Unitrin Business	Patrick Padalik
Nationwide Mutual Insurance Company	Kathy Southern
N.C. Farm Bureau Mutual Insurance Company	Bob Tart
Penn National Insurance Company	Pat Lovell
	Chuck Uckele
State Farm Fire and Casualty Company*	Bob Messier
Travelers Indemnity Company	Sylvia Kyle
United Services Automobile Association	Dan Pickens

Automobile Committee	
Members	Representative
Allstate Insurance Company	Christopher Stoll
GEICO Indemnity Company	David Nelson
Hartford Fire Insurance Company	Daphne Lum
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Company	Jeff Wright
Kemper, A Unitrin Business	Patrick Padalik
Nationwide Mutual Insurance Company	Stephen Harter
N.C. Farm Bureau Mutual Insurance Company	Roger Batdorff
Progressive Casualty Insurance Company	Kevin McGee
State Farm Mutual Automobile Insurance Company*	Kathy Popejoy
Travelers Indemnity Company	Sylvia Kyle
United Services Automobile Association	Lisa Sukow

Workers Compensation Committee	
Members	Representative
American Home Assurance Company	Ira Feuerlicht
Amerisure Insurance Company	Brent Otto
Builders Mutual Insurance Company*	Jerry Visintine
Companion Property & Casualty Company	Tom Walsh
Harleysville Mutual Insurance Company	John Zulueta
Hartford Accident & Indemnity Company	Melinda Thompson
Key Risk Insurance Company	John Godfrey
Liberty Mutual Insurance Company	John Walsh
Maryland Casualty Company	
N.C. Farm Bureau Mutual Insurance Company	Roger Batdorff
PA National Mutual Casualty Insurance Company	Alan Stowe
Travelers Indemnity Company	Jeffrey Schmidt

* Chair



INSURANCE OPERATIONS



Sue Taylor
DIRECTOR, INSURANCE OPERATIONS

The world is changing quickly, especially in the technology area. Over the last few years, terms such as Google, Twitter and GPS have been added to vocabularies. At the North Carolina Rate Bureau, terms such as ManageAR, Customer Management System (CMS), Insurance Data Collection (IDC) and ManageUSR have been added to the workforce vocabulary. In the 35 years that the North Carolina Rate Bureau has been in existence, there have been many technology changes. Most of these changes have been good for the Bureau and, we hope, good for the member companies.

When evaluating technology changes for the Bureau, there are two things that are kept in mind — data quality and efficiency. As a result of new technology introduced at the Bureau, efficiencies have improved, and more work is being done with fewer associates. In Insurance Operations, work queues have been added to facilitate the handling of work items. This is just one of the many technology changes that have had an impact on the Bureau’s efficiencies.

Technology has not eliminated the need for numerous committee and subcommittee meetings at the Bureau. Member companies designate individuals as representatives on these committees. These representatives provide invaluable input to the Bureau staff. A special thank you is extended to these individuals for their time commitment and the assistance they provide to the Bureau. In addition, the associates of Insurance Operations must be recognized for their willingness to improve technology and work processes throughout the year.

In 2012, there were numerous legislative meetings concerning Bureau items. New legislation (including Senate Bill 836 and House Bill 237) made statutory changes for the residential property and workers compensation lines of business.

The following summarizes the accomplishments of Insurance Operations over the past year.

PERSONAL LINES

Automobile

For Private Passenger Automobile insurance, the Rate Bureau is required to make a rate filing every year by February 1. Again this year, it was decided to file only a review of the data with the Department of Insurance and not request a revision in the automobile insurance rates. This marked the third year in a row that the Rate Bureau did not request a revision in the automobile insurance rates.

As a result of filing a review of the data for Private Passenger Automobile, it was necessary to make a filing to revise and update the model year and symbol relativities. In addition, a filing was made to revise the method to determine the symbol for vehicles for which a symbol is not displayed in the manual. These revisions were approved and became effective April 1, 2012.

A filing was made to clarify the rating of golf carts and antique autos. This filing was approved and became effective on October 1, 2012.

A filing was made to revise the Safe Driver Insurance Plan to clarify what types of damages should be used in determining the accident threshold. This filing was approved and became effective on October 1, 2012.

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. Below is a summary of the results of the appeal of those “points.”

	2012	2011	2010
In Favor of Insured	2	3	5
In Favor of Company	3	5	11



Property

As previously reported in the 2011 Annual Report, the Rate Bureau submitted a Dwelling rate filing to the Department of Insurance proposing an overall rate level change of -7.3% for fire and +36.1% for extended coverage. The Commissioner of Insurance called for a public hearing, and the hearing concluded on October 25, 2011. The Commissioner issued an Order on December 9, 2011, approving the -7.3% for fire and disapproving the +36.1% for extended coverage. The Governing Committee voted to appeal the Commissioner's Order to the Court of Appeals and to implement the ordered rate level for fire effective May 1, 2012. At the time of this publication, the filing remains pending before the Court of Appeals.

As a result of the implementation of House Bill 1305 during the 2010 session of the General Assembly, the Beach Plan was restricted to writing property coverage at limits no greater than \$750,000. To provide coverage at limits higher than \$750,000, the Rate Bureau developed and filed a Homeowners Excess Policy Program. The Department of Insurance expressed concerns over the rate level being used to establish the rates for the program. In August 2012, the Department closed the filing "without any action" due to the inability of the Department and Bureau "to reach agreement on the filed rules."

Legislation

During the 2011 session of the General Assembly, two Legislative Research Committees (LRC) were constituted. One LRC was created for the review of property insurance and one for the review of automobile insurance. The Automobile LRC considered two proposed bills and decided not to propose any legislative changes to the 2012 General Assembly. However, the Property LRC received input from a number of different sources and proposed Senate Bill 836. After some amendments, that bill was passed by the General Assembly and provided for several

changes in property and workers compensation insurance. Among other items, Senate Bill 836 provides that (1) the Commissioner of Insurance can set insurance rates after holding a public hearing, but the rate he sets must be between the current rate and the proposed rate; (2) the Rate Bureau, in conjunction with the Department of Insurance, will review property territories and submit a report to the 2013 session of the General Assembly and (3) the Rate Bureau will develop and file a "fire only" policy form prior to December 1, 2012.

WORKERS COMPENSATION

Filings

In September 2011, the Rate Bureau Governing Committee elected not to make a filing for workers compensation loss cost or assigned risk rate changes in North Carolina. For the first time in many years, no change was made to the loss costs or assigned risk rates by classification code. Proposed changes to loss costs and assigned risk rates were filed August 31, 2012,

for a proposed effective date of April 1, 2013. Those filings were pending when this report was prepared.

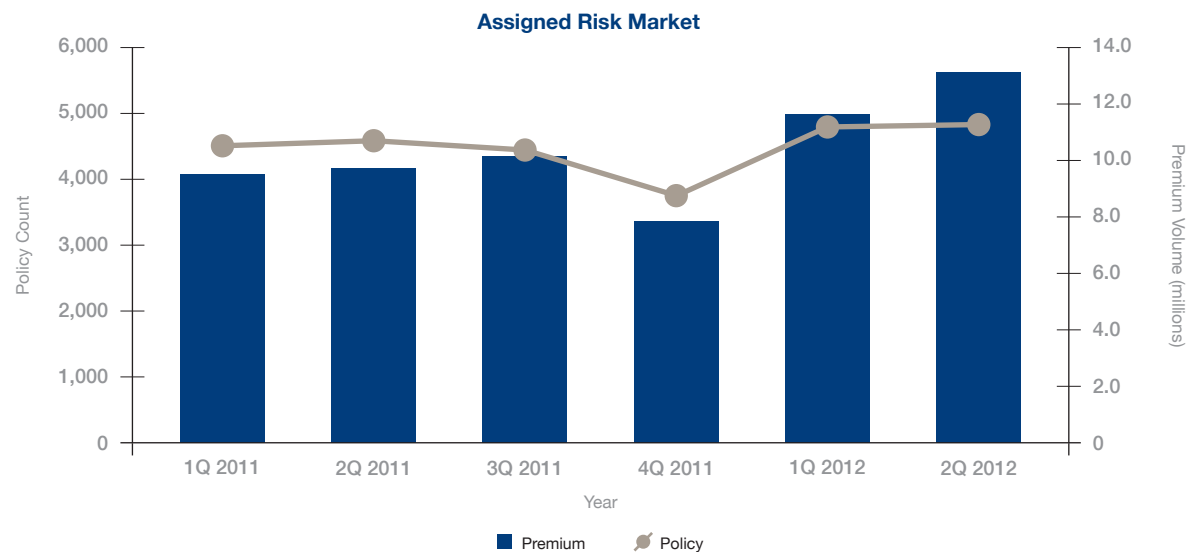
Assigned Risk

Increases in assigned risk assignments have been seen in the first two quarters of 2012. Premium volume and policy count are above prior year. Increases have also been seen in risks with premiums greater than \$100,000.

Agent utilization of the electronic application system, ManageAR, continues to increase. Over the past 12-month period, agent utilization has risen from 89% to 91%. Efforts are continuing in order to persuade agents to use ManagerAR, which allows electronic submission of the assigned risk application and the deposit premium.

The Bureau is the Plan Administrator for the North Carolina Workers Compensation Insurance Plan (Assigned Risk Plan).

Effective January 1, 2012, the Bureau has two servicing carriers and seven direct assignment carriers.



The current servicing carriers are:

- Riverport Insurance Company
- Travelers Property Casualty Company of America

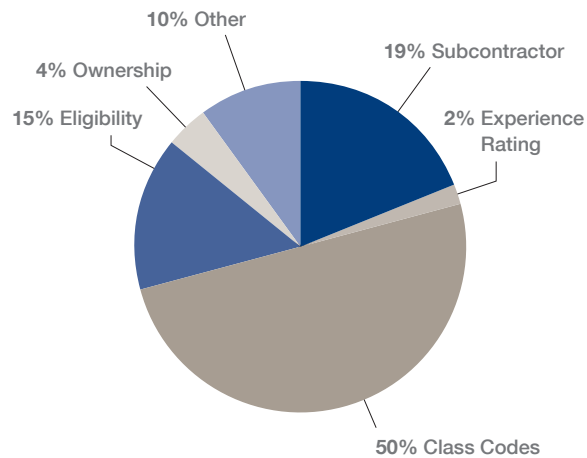
The current direct assignment carriers include:

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

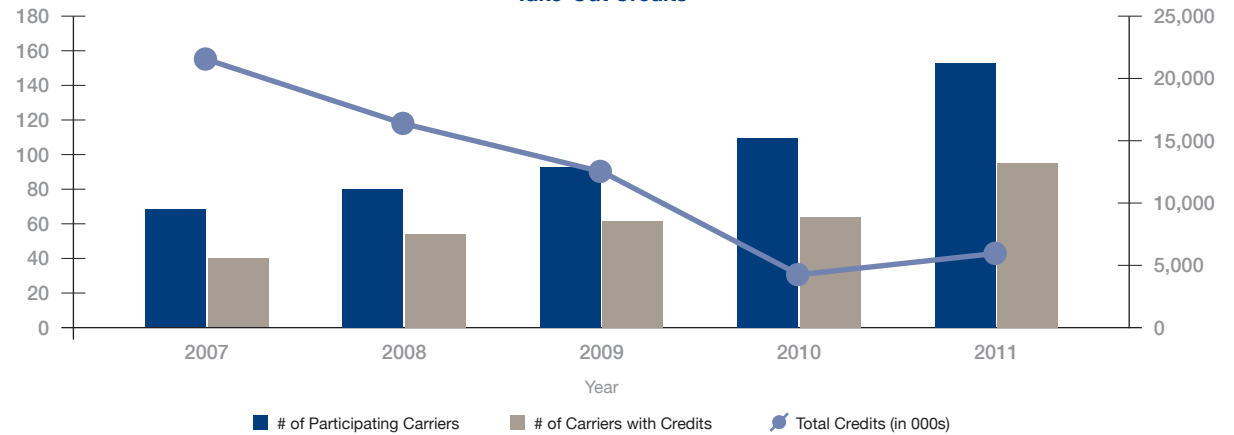
Classification and Ownership

Over the past 12 months, the Classification and Ownership Unit responded to 2,805 classification inquiries. In addition, the unit processed 2,476 ownership work items that resulted in 2,318 ownership rulings.

**Breakdown of Workers Compensation Disputes
7/1/11–6/30/12**



Take-Out Credits



Disputes

The volume of workers compensation disputes received in the first six months of 2012 is comparable to the number received during the same period for 2011. The trend seen in 2011, of more disputes being submitted by attorneys than by agents and employers, has continued over the past 12 months.

Take-Out Credits

The North Carolina Workers Compensation Assigned Risk Take-Out Credit Program is designed to encourage carriers to depopulate the residual market. This is accomplished by providing a “credit” to carriers for workers compensation premium moved from the assigned risk market to the voluntary market. These “credits” are applied to the carrier’s voluntary premium that is used in calculating their Pool participation base.

Over the past five years, the number of carriers electing to participate in the Take-Out Credit Program has significantly increased.

Data Quality

The Data Quality area is responsible for the reconciliation of carrier data as well as the promulgation of experience modifications. One hundred percent of the reporting is electronic. Internally, an initiative has brought an increased focus on monitoring and following up on errors that primarily impact either the employer’s premium or status of coverage. Carriers will receive follow-up notices in instances where the Bureau-calculated experience modification is not reported on the policy. Additionally, follow ups will be generated in instances where there is overlapping coverage for an employer.

Technology has streamlined the handling of work within the Data Quality area. Through Spectrum, the internal processing system, all work is routed electronically among the associates through a queue which essentially eliminates paper processing. This implementation has led to improved efficiencies in processing the volume of data received from member companies.

The Bureau processed 551,854 transactions during 2011, which includes new and renewal policies, cancellations,



reinstatements and endorsements. During 2011, the Bureau issued 46,627 experience modifications.

Data Collection and Analysis

The Bureau collects workers compensation and personal lines data primarily for use in the rate filings.

Bureau staff continues to monitor closely the accuracy and validity of the data collected. For Personal Lines, the Industry Data Collection system is used to collect and edit the data. Staff then completes a detailed analysis of the data and contacts member companies for clarification if questions arise. For Workers Compensation, the Bureau has several tools to assist the carriers with monitoring the data submitted. The data monitoring/collection tools available to Workers Compensation member companies include ManagePolicy, ManageUSR and Noncompliance/Compliance. An updated version of ManageUSR will be available in early 2013. The new version will provide carriers with the ability to correct and replace USR data via the ManageUSR web application.

This year there has been an increased focus on the workers compensation data the Bureau collects and the Bureau's relationship with the North Carolina Industrial Commission. House Bill 237 included a provision that ensures that the workers compensation data shared with the North Carolina Industrial Commission is kept confidential.

North Carolina State-Specific Manuals

A revision to the North Carolina Statistical Plan Manual is close to completion. Staff has been working to update the manual and make it more user friendly.

In July 2011, the Workers Compensation Committee approved a proposal for Staff to begin the task of creating a North Carolina state-specific Basic Manual in 2012. This project is underway and will convert language used in the NCCI Basic Manual to language that is specific to North Carolina.

SHARED SERVICES

Human Resources (HR) is the strategic and comprehensive approach to managing our organizations' most valued assets — the people. HR responsibilities include administering HR policies, programs and practices, providing a safe work environment, professional development opportunities and work-life balance for associates. Administrative Services provides facility management of the building, mail services and receptionist responsibilities.

A key initiative this year included preparing and completing a successful move of the facility to a new location.

On-site training this year consisted of ten wellness classes through a partnership with WakeMed Hospital and an educational financial series that included workshops on retirement planning, mortgage and refinancing information and estate planning.

The Bureau has a strong wellness initiative that includes:

- Partnership with the NC Prevention Partners
- Annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10,000 steps a day
- Flu shots provided for associates on-site
- Certification in First Aid, CPR and AED for a third of the workforce through the American Red Cross.

Community service involvement by associates this year included The Wounded Warrior Project. Various fundraisers occurred in the first half of the year, and the fundraising goal was exceeded. In addition, annual support of United Way and the NC Food Bank is continuing this year.

Associate service milestones this year include:

- 10 associates celebrating 5 years
- 4 associates celebrating 10 years
- 1 associate celebrating 15 years

Years of Service		
Years	# of Employees	% of Employees
0-9 Years	42	62%
10-19 Years	14	20%
20-29 Years	4	6%
30-39 Years	6	9%
40+ Years	2	3%
Total	68	100%

Information Services

The Information Services department (IS) is responsible for Customer Service, Process Documentation/Process Improvement, Systems Availability and Systems Development.

The customer service area handles approximately 4000 support calls and emails per month from external customers via the Information Center, and the Service Desk handles an additional 200 calls and emails from internal associates. In 2012, the system that supports these areas underwent a significant upgrade that will allow improvements in quality in the service level provided to customers.

Technology has become an increasingly important tool in enabling customers to interact with the Bureau more



efficiently. In 2012, this area continued to focus on implementing a multi-layered security strategy. Improvements were made in the infrastructure area, including additional encryption of data, restricting access to systems and servers and implementing more sophisticated hardware solutions such as firewalls.

In 2011, an audit was conducted to identify potential security risks in custom web applications. Much of 2012 was spent remediating these security risks as well as ensuring that systems were compatible with newer technologies such as Internet Explorer 9.

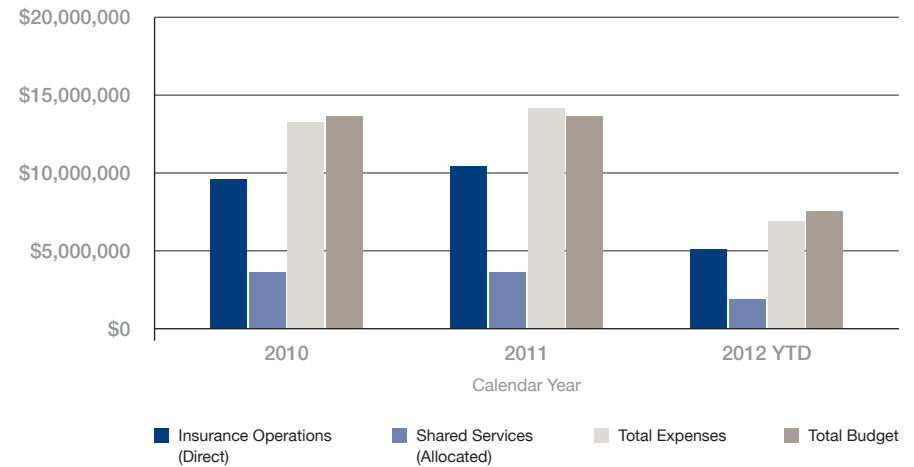
Finance

As previously reported and projected, the expenses of the North Carolina Rate Bureau exceeded the budget for calendar year 2011. Legal and consulting expenses related to the property filing hearing and various litigious matters surpassed the financial plan as originally developed for last year. Ironically, the delays in subsequent events related to those same matters have resulted in actual expenses being significantly under budget for the first half of 2012. While the final results will largely depend on the action of the Governing Committee, the projection is to be within budget this calendar year. There have been some unexpected costs related to the relocation and the Bureau's self-insured medical plan for associates, but these areas appear to be manageable so far in 2012.

Assessment income increased approximately 3.8% compared to the prior year. Most of the increase in assessments from last year is attributable to the first quarter 2012 supplemental assessment approved by the Governing Committee due to the 2011 results. Income from charges and fines for delinquent USR and late data reporting and miscellaneous sources increased about 9.2% from the report period a year ago. The increase in electronic exchange of policy information continues to improve efficiencies, and the income from charges for specific services to member companies appears to be stabilizing.

The total expenses of the Rate Bureau include the direct costs incurred as well as the allocated costs of the departments whose expenses are shared with the Reinsurance Facility and the

North Carolina Rate Bureau Administrative Expenses



Insurance Guaranty Association. The table and chart below show a summary of the direct and allocated expenses for the previous two years and the first half of 2012. The 2010 final expenses will be adjusted by other income and miscellaneous items and reapportioned to all member companies during the fourth quarter of 2012 — similar to the process in prior years.

North Carolina Rate Bureau	Administrative Expenses		
	2010	2011	Thru June 2012
Insurance Operations (Direct)	\$ 9,603,428	\$ 10,445,138	\$ 5,019,373
Shared Services (Allocated)	3,604,233	3,679,881	1,895,026
Total Expenses	\$ 13,207,661	\$ 14,125,019	\$ 6,914,399
Total Budget	\$ 13,667,394	\$ 13,674,256	\$ 7,548,873



NCRB MANAGEMENT STAFF



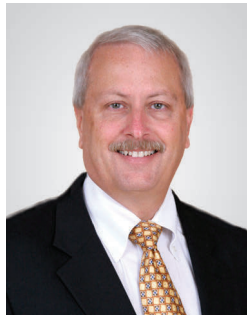
Karen Byrd
MANAGER,
WC UNDERWRITING
SERVICES



Delisa Fairley
MANAGER, INSURANCE
DATA OPERATIONS



Betty Hurst
MANAGER, WORKERS
COMPENSATION



Tim Lucas
MANAGER,
PERSONAL LINES



Lynne Mays
SUPERVISOR,
WC DATA QUALITY



Rebecca Williams
MANAGER,
DATA ANALYSIS

ORGANIZATION SHARED RESOURCES



Shelley Chandler
DIRECTOR,
INFORMATION SERVICES



Vicki Godbold
DIRECTOR,
HUMAN RESOURCES
AND ADMINISTRATIVE
SERVICES



David Sink
DIRECTOR,
FINANCE

CORE VALUES

Commitment
Integrity
Respect
Talents
Ownership
Consistency



NORTH CAROLINA RATE BUREAU

BALANCE SHEET

Year Ending	August 31, 2012 (Preliminary)	August 31, 2011
Assets		
Cash & Investments (Unrestricted)	\$2,065,200	\$1,824,744
Cash & Investments (Restricted)	581,400	577,106
Assessments Receivable	20,000	-
Accounts Receivable	60,000	43,450
Other Assets	-	6,984
Total Assets	\$2,726,600	\$2,452,284
Liabilities & Fund Equity		
Refund to Carriers Payable	\$50,098	\$50,098
Retiree Insurance Payable – Restricted	559,200	562,106
Other Benefits Payable – Restricted	22,200	15,000
Other Liabilities	(17,416)	(17,854)
Total Liabilities	\$614,082	\$609,350
Fund Equity	2,112,518	1,842,934
Total Liabilities & Fund Equity	\$2,726,600	\$2,452,284

INCOME STATEMENT

Year Ending	August 31, 2012 (Preliminary)	August 31, 2011
Income		
Assessments Income	\$13,521,000	\$13,030,756
Membership Fees Income	780,000	766,500
Late Data Reporting Charges	12,900	14,300
Delinquent USR Charges	474,000	424,001
Other Income	2,700	10,014
Total Income	\$14,790,600	\$14,245,571
Expenses (Net)		
Legal, Consulting & Other Outside Services	\$8,250,000	\$7,492,433
Salaries & Administration Expenses	3,170,000	3,202,596
Other Operating Expenses	2,865,000	2,710,620
Total Net Expenses	\$14,285,000	\$13,405,649
Net Income	\$505,600	\$839,922





North Carolina Rate Bureau

2910 Sumner Blvd. Raleigh, NC 27616 www.ncrb.org