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March 15, 2000

CIRCULAR LETTER TO ALL MEMBER COMPANIES

IMPORTANT MATERIAL

NEEDS PROMPT ATTENTION

Re: Settlement of 1994, 1996 and 1999 Auto Insurance
Rate Filing Cases _ Refund of Portion of Escrowed Premiums -
1994 Rate Filing Case _ Approval of Implemented Rates -
1996 Rate Filing Case _ Revised Auto and Motorcycle Insurance Rates -
1999 Rate Filing Case

Following lengthy negotiations, the Rate Bureau and the Commissioner of Insurance have agreed to settle the outstanding 1994, 1996 and 1999 private passenger auto insurance rate filing cases. The 1994 and 1996 cases were involved in litigation and in each case member companies had been advised by the Rate Bureau to establish escrow accounts because the Rate Bureau instructed member companies to implement rates higher than those approved by the Commissioner of Insurance. Enclosed herewith as Exhibit A is a copy of the Settlement Agreement and Consent Order ("Settlement Agreement") dated March 9, 2000 signed in connection with the settlement.

For additional information regarding the details of the 1994 and 1996 rate filing cases, refer to the Rate Bureau's Circular Letters to All Member Companies A-94-24 dated December 16, 1994; A-95-2 dated February 17, 1995; A-96-6 dated October 31, 1996; and A-97-3 dated March 14, 1997.

1994 Filing

With respect to the 1994 rate filing case, the terms of the settlement provide that member companies shall refund to policyholders that portion of the premium collected on each policy which exceeds the premium which would have resulted on each policy using the rates approved in the settlement agreement, along with interest. Included in this circular and in the documents attached

hereto are specific instructions and procedures approved by the Governing Committee and ordered by the Commissioner of Insurance which must be followed by member companies in processing the refunds of premium and interest to be issued in connection with the 1994 rate filing case. Exhibit 1 of the Settlement Agreement includes a memorandum entitled Procedures on Refund of Premium. Exhibit 2 of the Settlement Agreement includes the approved base rates resulting from the rate level changes approved for the 1994 filing in connection with the settlement.

There is no single, predetermined methodology for calculating the portion of premium to be refunded, but it is important to be as accurate as reasonably possible in determining the portion of the premium to be refunded. For those companies that intend to rerate each policy based on the base rates approved under the Settlement Agreement, the base rates approved are set forth in Exhibit 2 of the Settlement Agreement. For those companies whose systems have been maintained to work from the differences between the rates as implemented and the rate as ultimately approved, those differences, by coverage, may be calculated using the factors set forth in the attached Exhibit B. These factors, when applied to the appropriate base rate implemented by the Rate Bureau effective January 1, 1995, result in the actual amount by which the Rate Bureau's implemented base rate exceeds the base rate approved in the Settlement Agreement. Based upon individual company's methods of operation, there may be other appropriate methods for determining the portion of premium to be refunded.

The Settlement Agreement explicitly recognizes and provides that all deviations and all unpaid premium are to taken into account in determining the amount of premium to be refunded on each policy. Please note that the factors set forth in the attached Exhibit B do not take into account any deviations or unpaid premium and, therefore, if these factors are used in determining the portion of premium to be refunded on a policy, appropriate reductions should be made to reflect all deviations and unpaid premium on the policy.

No refunds are to be mailed prior to September 1, 2000, and all refunds are to be mailed prior to December 1, 2000.

With respect to "clean risks" business ceded to the North Carolina Reinsurance Facility to which the 1994 rate filing case applied, which business is required to be rated on the basis of Rate Bureau voluntary rates, the Reinsurance Facility has been maintaining the required escrow account, but it will be necessary for ceding carriers to make arrangements to distribute the appropriate refunds to policyholders. The difference between the premium collected and the premium that would have been charged using the approved rates on "clean risks" business ceded to the Reinsurance Facility, along with any interest paid as part of the refunds on such business, will be reimbursed by the Reinsurance Facility to the ceding companies. The Reinsurance Facility is in the process of developing appropriate procedures for handling and accounting for these refunds and member companies will be advised of these procedures by circular letter in early to mid-April.

1996 Filing

Under the terms of the Settlement Agreement, the rates implemented by the Rate Bureau with respect to the 1996 rate filing case are approved, and no refunds are required on policies to which the 1996 rate filing case applied. Member

companies are entitled to the funds which had been placed in escrow with respect to that case.

1999 Filing

With respect to the 1999 rate filing case, the Rate Bureau and the Commissioner of Insurance have agreed to a settlement which results in a statewide average rate level change of -9.25% relative to the Rate Bureau manual rate levels currently in effect. Included in Exhibit 3 attached to the Settlement Agreement are revised rates, rating factors and other miscellaneous changes to be implemented as a result of the settlement of the 1999 rate filing case. These changes are to be implemented effective September 1, 2000 (see Rule of Application on page 7 of the Settlement Agreement).

With respect to discussions that occurred in connection with this settlement, member companies are advised as to the following important points:

1. The automobile insurance statistical agents for North Carolina (Insurance Services Office (ISO), National Association of Independent Insurers (NAII) and National Independent Statistical Service (NISS)) will be made aware of this settlement and any special instructions which might be needed with respect to the reporting of statistical data will be issued directly to the companies from ISO, NAII and NISS.
2. Neither the premiums refunded, interest paid nor the expenses incurred in connection with issuing the refunds are to be included as expenses in responses to the Annual Call for Automobile Expense Experience issued by the Rate Bureau. However, separate entries will be included on the Annual Call for Automobile Expense Experience to report the amount of premium refunded, interest paid and the expenses incurred in issuing refunds. Accordingly, companies should take appropriate steps to be able to separately identify these items.
3. The Bureau is advised that the Insurance Department's auditors may test the appropriateness of refund calculations during the course of any market conduct examination conducted in the company's office. When they become available, the Department's instructions regarding the accounting treatment to be afforded escrow funds, refunded premium and related interest expense will be forwarded by the Rate Bureau to all member companies.

While it is important that each company establish procedures that will ensure compliance with the Settlement Agreement, it should be emphasized that an individual company has the right to petition the Insurance Department for relief or adjustments to the ordered procedures if those procedures cause undue hardship or expense to the company or if the company can show that its circumstances result in the procedures being unlawful or otherwise inequitable.

Please see to it that this circular letter is brought to the attention of all interested personnel in your Company.

Very truly yours,

John W. Watkins

General Manager

JWW:lm

Enclosures

A-00-3