

MINUTES OF THE TWENTY-EIGHTH ANNUAL MEETING OF THE NORTH CAROLINA
RATE BUREAU HELD AT THE GRANDOVER RESORT AND CONFERENCE CENTER, ONE
THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA, OCTOBER 25, 2005

MEMBERS PRESENT

REPRESENTED BY

Alliance Mutual Insurance Company

Mary Taylor
Robert White
Bob Blystone

Allstate Insurance Company
Allstate Indemnity Company
Encompass Indemnity Company
Northbrook Indemnity Company

AmComp Assurance Corporation

Michael Kaminske
Ira Feuerlicht

American Home Assurance Company

AIU Insurance Company
AIG Centennial Insurance Company
AIG Premier Insurance Company
American International South Insurance Company
Birmingham Fire Insurance Company of Pennsylvania
Commerce & Industry Insurance Company
Granite State Insurance Company
Insurance Company of the State of Pennsylvania
National Union Fire Insurance Company
New Hampshire Insurance Company

American Southern Insurance Company

Jim McCafferty
Lisa Melton
Paul Aycock
Greg Ricker
Richard Yarbrough
Alice Hamm
Mary Pierce
James Gron

AMICA Mutual Insurance Company

Atlantic Casualty Insurance Company

Auto-Owners Insurance Company
Owners Insurance Company

Cincinnati Insurance Company
Cincinnati Casualty Company
Cincinnati Indemnity Company

Erie Insurance Exchange
Erie Insurance Company

Ronnie Chamberlain

Government Employees Insurance Company
GEICO General Insurance Company
GEICO Indemnity Company

Tom McNicholas

Hartford Fire Insurance Company
Hartford Accident & Indemnity Company
Hartford Casualty Insurance Company
Hartford Insurance Company of the Midwest
Hartford Underwriters Insurance Company

Todd Martensen

Property & Casualty Insurance Company of Hartford	
Sentinel Insurance Company, Ltd.	
Trumbull Insurance Company	
Twin City Fire Insurance Company	
Horace Mann Mutual Insurance Company	Greg Carr
Horace Mann Property & Casualty Insurance Company	
Teachers Insurance Company	
Integon Indemnity Corporation	Art Lyon
GMAC Direct Insurance Company	
GMAC Insurance Company Online, Inc.	
Integon Casualty Insurance Company	
Integon General Insurance Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Integon Specialty Insurance Company	
New South Insurance Company	
Key Risk Insurance Company	John Godfrey
Liberty Mutual Insurance Company	Greg Ciezadlo
First Liberty Insurance Company	Cindy Sickler
Liberty Insurance Corporation	Cheryl Watts
Liberty Mutual Fire Insurance Company	
LM General Insurance Company	
LM Insurance Corporation	
LM Personal Insurance Company	
LM Property & Casualty Insurance Company	
Maryland Casualty Company	Paul Ziegler
Zurich American Insurance Company	
American Guarantee & Liability Insurance Company	
American Zurich Insurance Company	
Assurance Company of America	
Colonial American Casualty & Surety Company	
Fidelity & Deposit Company of Maryland	
Northern Insurance Company of New York	
Valiant Insurance Company	
Nationwide Mutual Insurance Company	Todd Davis
Allied Property & Casualty Insurance Company	Amy Powell
Farmland Mutual Insurance Company	
Nationwide Affinity Insurance Company	
Nationwide Agribusiness Insurance Company	
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
North Carolina Farm Bureau Mutual Insurance Company	Roger Batdorff
Farm Bureau Insurance of North Carolina, Inc.	
Pennsylvania National Mutual Casualty Insurance Company	Alan Stowe
Penn National Security Insurance Company	
Progressive Casualty Insurance Company	Patricia D'Ambrosia
National Continental Insurance Company	Andrew Rose
Progressive American Insurance Company	
Progressive Northern Insurance Company	
Progressive Northwestern Insurance Company	
Progressive Preferred Insurance Company	
Progressive Premier Insurance Company of Illinois	

Progressive Southeastern Insurance Company	
Progressive Universal Insurance Company	
United Financial Casualty Company	
Royal Indemnity Company	Tim Miller
American & Foreign Insurance Company	
Connecticut Indemnity Company	
Fire & Casualty Insurance Company of CT	
Globe Indemnity Company	
Grocers Insurance Company	
Peak Property & Casualty Insurance Corporation	
Phoenix Assurance Company of New York	
Safeguard Insurance Company	
Sea Insurance Company of America	
Security Insurance Company of Hartford	
Southern General Insurance Company	Angela Haithecock
State Automobile Mutual Insurance Company	Wes Florence
State Automobile National Insurance Company	
State Automobile Property & Casualty Insurance Company	
State Farm Mutual Automobile Insurance Company	Alan Bentley
State Farm Fire & Casualty Company	Audrey Martens
State Farm General Insurance Company	Bob Messier
Stonewood Insurance Company	Tee Stephenson
Travelers Indemnity Company	Michael Fitzgerald
Athena Assurance Company	Chad Mirock
Automobile Insurance Company of Hartford	Benjy Seagle
Charter Oak Fire Insurance Company	
Discover Property & Casualty Insurance Company	
Farmington Casualty Company	
Fidelity & Guaranty Insurance Company	
Fidelity & Guaranty Insurance Underwriters	
Phoenix Insurance Company	
St. Paul Fire & Marine Insurance Company	
St. Paul Guardian Insurance Company	
St. Paul Medical Liability Insurance Company	
St. Paul Mercury Insurance Company	
St. Paul Protective Insurance Company	
Standard Fire Insurance Company	
Travco Insurance Company	
Travelers Casualty & Surety Company	
Travelers Casualty & Surety Company of America	
Travelers Casualty Company of Connecticut	
Travelers Casualty Insurance Company of America	
Travelers Commercial Casualty Company	
Travelers Commercial Insurance Company	
Travelers Home & Marine Insurance Company	
Travelers Indemnity Company of America	
Travelers Indemnity Company of Connecticut	
Travelers Insurance Company	
Travelers Person Security Insurance Company	
Travelers Property Casualty Company of America	
Travelers Property Casualty Insurance Company	
United States Fidelity & Guaranty Company	

United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Universal Insurance Company

Joe Schmucker

Greg Spray

OTHERS PRESENT

Young, Moore & Henderson

Bagwell & Bagwell, Inc.
Independent Insurance Agents of NC
Insurance Federation of North Carolina
Insurance Services Office
Milliman USA
Staff

REPRESENTED BY

Mickey Spivey
Mike Strickland
Bill Trott
Steve Smith
David Walker
Joe Stewart
Patrick Woods
David Appel
Jannet Barnes
Edith Davis
Chuck Eckstein
Ray Evans
Delisa Fairley
Vicki Godbold
Robert Greer
Wayne Hinton
Fred Hoerl
Tim Lucas
Kamala Massey
Lois Murphey
Mike Newton
Karen Ott
Liz Polley
David Sink
Sue Taylor

258 other companies voted by proxy.

The meeting convened as scheduled, Mr. Batdorff of North Carolina Farm Bureau, Chairman of the Governing Committee, presiding.

Attention was directed to the Conflict of Interest Statement and Antitrust Compliance Policy.

Mr. Evans announced that a quorum was present or represented by proxy.

1. Annual Report

Mr. Evans reviewed and commented on the 2005 Annual Report, a copy of which is attached hereto. The Annual Report was approved by the members.

2. 2004 Annual Meeting Clarification

Mr. Evans explained that, during the 2004 Annual Meeting, two stock companies were elected to the Governing Committee and that clarification is needed on which company was elected to serve its own three-year term and which was elected to fill the vacancy resulting from the St.

Paul/Travelers merger. He explained further that there had been only one year remaining in St. Paul Fire and Marine's term and that the company that filled that vacancy would now be completing that term and be eligible for reelection. Through a written ballot vote, it was determined that Cincinnati Insurance replaced St. Paul last year and will be eligible for reelection and that Progressive Insurance was elected last year to a three-year term.

3. Governing Committee Election

Mr. Seagle, of Travelers Indemnity Company, Chairman of the Nominating Committee previously appointed by the Chairman of the Governing Committee, announced the Nominating Committee's recommended slate for the four open positions (two stock company and two non-stock company positions) on the Governing Committee and he opened the floor for additional nominations. He noted that each of these positions was for a full three-year term. Following the close of nominations and a written ballot vote, it was announced that Hartford Accident and Indemnity Company and Cincinnati Insurance Company were elected as the stock companies and that United States Automobile Association and North Carolina Farm Bureau Mutual Insurance Company were elected as the non-stock companies.

4. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Raymond F. Evans, Jr., CPCU

General Manager

RFE:lm

G-06-2

Enclosure

1/17/06

NCRB-NCRF-NCIGA



north carolina

RATE BUREAU

REINSURANCE FACILITY

INSURANCE GUARANTY ASSOCIATION

North Carolina Rate Bureau 2005 ANNUAL REPORT

North Carolina Rate Bureau
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OBJECTIVES AND FUNCTIONS

There is hereby created a Bureau to be known as the “North Carolina Rate Bureau,” with the following objectives and functions:

- (1) *To assume the functions formerly performed by the North Carolina Fire Insurance Rating Bureau, the North Carolina Automobile Rate Administrative Office, and the Compensation Rating and Inspection Bureau of North Carolina, with regard to the promulgation of rates, for insurance against loss to residential real property with not more than four housing units located in this State and any contents thereof and valuable interest therein and other insurance coverages written in connection with the sale of such property insurance; for theft of and physical damage to private passenger (nonfleet) motor vehicles as the same are defined under Article 40 of this Chapter; for liability insurance for such motor vehicles, automobile medical payments insurance, uninsured motorists coverage and other insurance coverages written in connection with the sale of such liability insurance; and for workers’ compensation and employers’ liability insurance written in connection therewith except for insurance excluded from the Bureau’s jurisdiction in G.S. 58-36-1(3).*

NCGS 58-36-1

MESSAGE FROM THE CHAIRMAN

For three of the last five years, our company has had the honor of serving as chairperson of the Rate Bureau Governing Committee. Over this time, I have seen many changes ranging from the establishing a Human Resource function to improved Work Comp processing; from IT upgrades to internet development; from improved working environment to just getting the job done on time...many changes, many improvements.

All of this has occurred under the direction of Mr. Evans. Ray, we thank you for your innovation and forward thinking leadership. But, it took more than just a “point man” to make these revisions reality. We thank all the employees of the Rate Bureau and affiliated organizations that adopted these new ideals and worked hard to implement them to make a better work place and a better work product. Your efforts are greatly appreciated by all who conduct business here in North Carolina.

Beyond the four walls on Six Forks Road, Mr. Evans and his associates have reached out to the Department of Insurance to foster a relationship based on good communication and consistent contact. I have accompanied Ray and his staff on many occasions and they have represented us well with their knowledgeable, professional approach. I thank them again for their efforts.

There are many opinions on the insurance climate in North Carolina. Some feel it is totally out-dated, archaic, and some, just plain awful. Others feel if you work within the guidelines, a fair and commensurate return can be made. Regardless of your position, it is important we strive to make things better. I know Ray and his staff will do just that. I encourage all of the member companies to do the same.

In closing, I thank all those who gave me support over the last two years, particularly our attorneys, consultants, and fellow committee members. Our company remains committed to North Carolina and making the insurance environment the best it can be. I encourage you to do the same.

Thanks for your confidence and support.

Roger Batdorff

GENERAL MANAGER'S REPORT

For some time we have discussed the vision and mission of the Rate Bureau. These are important in thinking about what the Rate Bureau accomplished this past year, as the value carrier members receive is measured from these benchmarks. Vision is how the Governing Committee has determined we should conduct our business activity. Simply, vision is to be professional, competent, honest and effective in the tasks that are prescribed for us to do. Mission is a concept of what those tasks are and how we accomplish them.

Measuring how well we did in the value carriers received is fairly complex. The easiest way to do this is look closely at cost. Examining this is simplified if we look at two basic types of expense of the Rate Bureau.

First, there is the direct expense of complying with the requirements of the statute. The Rate Bureau promulgates rules, rates, and forms, administers the Workers Compensation Insurance Plan, calculates WC experience mods and adjudicates disputes within the PPA Safe Driver Plan, among other duties.

These are all costly to some degree, particularly the rate promulgation part when a hearing is involved such as the current PPA filing hearing. However, for all of these compliance activities we have created processes, evaluated these processes and are doing the work involved as effectively as we can. We think carriers are receiving good value in this area.

In addition to these direct costs, there is a cost to members to conform to North Carolina where the state differs from other states. That North Carolina is unique is a decision of the Legislature. Keeping the differences manageable and as small as possible, at least in their application, is one of our largest efforts.

A significant part of this is to push as hard as possible for the "right" rate level for each of the lines for which we are responsible. This year we implemented a homeowner's rate change that addresses the rate inadequacy in the eastern part of the state. We filed a PPA change that incorporates a new, and, we believe, more appropriate and defensible methodology. In September, we filed a significant increase for workers compensation because the data supported the notion the character of the business is changing. While we do not have the "right" level for every exposure, we are working hard to get there.

Another part of the "uniqueness" cost is policy forms. In addition to a number of individual forms changes, new homeowners program forms were effective April 1. As this is being written we have just received approval of a PPA program forms change to be implemented shortly. Both of these will make NC look more like the remainder of the country.

We also manage the "uniqueness" cost in another way. A key project this year, which is within a few weeks of being completed, is a web based policy application for the WC Insurance Plan (assigned risk). Because of this we will see a dramatic drop in the cost of processing some 37,000 applications each year, both for the Rate Bureau and the agencies submitting them.

As a last thought on costs, we also reduce them through the process of combining activity of the three Organizations. The most recent example is the creation of the Information Center. We realized when beginning the WC application project that there would be an increase in the communication necessary to support it. Hopefully most of this will be on line, but we know from experience that a lot will still be telephone inquiries. This new unit is being trained to handle this effectively and, in addition, we are incorporating other activities such as the help desk into what they do.

The associates of the Rate Bureau, with the guidance and counsel of its committees, are dedicated to making certain member carriers receive the greatest possible value for their membership.

INTERNAL AUDIT

As defined by the Institute of Internal Auditors, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Adopting this definition to focus the roles and responsibilities of the internal audit staff, the Organizations made substantial progress during the year toward establishing a comprehensive internal control structure following the concepts of the COSO Internal Control Integrated Framework. Concentrating on internal controls over financial reporting, processes were analyzed and documented, risks were assessed and appropriate controls were developed to mitigate those risks. This involved identification of significant accounts impacting the financial statements, identification of relevant assertions, detailing processes that influence each significant account and formulating appropriate controls.

The risk assessment and control matrix with respect to financial reporting was substantially completed by year end, although further refinements will be made as assessment and review will be ongoing. While priority was given to financial reporting, similar efforts were also in progress regarding controls relating to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. Plans were made to begin evaluation and testing of control effectiveness as soon as feasible.

Further advances were evident in the control environment, as governing bodies and advisory committees became more active in addressing audit and control issues and providing direction to staff and counsel regarding control activities, monitoring, information gathering and communication. This included an evaluation of the various components of the internal control structure using the Audit Committee Toolkit published by the AICPA.

Staff endeavored to remain current as to prevailing best practices through research, training and education, involvement in professional associations, and communication with counterparts in industry. Continuing efforts were made to promote Organization-wide awareness of the internal control environment. Periodic reports were made by staff regarding the Associates Accounting Complaints Policy, with no complaints submitted to date.

Internal Audit continued...

In accordance with the COSO framework, internal control is a process requiring the involvement of Board and Committee members, managers and associates at all levels within the Organizations. The continuing efforts of these individuals will help the Organizations achieve the objectives of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

HISTORY

The North Carolina Rate Bureau became operational September 1, 1977 as the result of legislation enacted by the North Carolina General Assembly. The legislation at the same time abolished three existing statutory insurance rating bureaus, -- the Compensation Rating and Inspection Bureau of North Carolina which had been in operation since 1931, the North Carolina Automobile Rate Administrative Office which was established in 1939, and the North Carolina Fire Insurance Rating Bureau which had been operating since 1945.

The jurisdiction of the Rate Bureau is somewhat narrower than the combined jurisdictions of the three organizations it replaced. Its responsibilities are limited to insurance on non-fleet private passenger automobiles, on residential property, and workers compensation insurance.

The Bureau is an unincorporated association composed of all of the insurance companies licensed by the Commissioner of Insurance to write in North Carolina any or all of the lines within its jurisdiction. Presently there are 643 such member companies. The Bureau operates under a Constitution which vests responsibility in a 14-member Governing Committee composed of six stock and six non-stock voting member companies and two non-voting public members appointed by the Governor. There are four other standing committees which act as technical advisory committees to the Governing Committee. These are the Automobile, Property, Workers Compensation Insurance Committees, and the Legal Committee. Each of the committees meets as necessary and when called.

The Rate Bureau is located at 5401 Six Forks Road, Raleigh, North Carolina along with the North Carolina Reinsurance Facility and the North Carolina Insurance Guaranty Association. The total staff consists of 94 full-time associates and 5 part-time associates handling the activities of the three organizations. A number of the associates, notably accounting, information technology and human resources, are engaged in work for more than one of the three organizations, permitting cost-effective use of equipment and personnel. All costs are carefully allocated so that each organization bears its fair share.

The cost of operating the Bureau is borne by its member companies in proportion to their respective North Carolina premium writings, subject to a minimum annual membership fee for each of the three lines of insurance which a member company is licensed to write. The Bureau's expense budget for the current calendar year is approximately \$10.5 million.

History continued...

Functions -- Article 36 of Chapter 58 which created the Bureau details its responsibilities. The principal function is to establish, subject to the approval of the Commissioner, standard rates, rating plans, classification systems and forms for the lines of insurance within its jurisdiction.

Duties -- The task of maintaining the standard policy and endorsement forms and the rates, rules, classifications and rating plans in an ever-changing environment involves constant review of statistical information, evaluation of proposals for change and preparation of filings for submission to the Commissioner of Insurance. Insurance policy and endorsement forms for the coverages subject to the Rate Bureau's jurisdiction have been standardized in North Carolina, and all companies writing the coverages in the State have been required to use the standard forms approved by the Commissioner.

Proposals For Filing -- From time-to-time the Rate Bureau receives mandatory and optional proposals for changes to existing programs and for new programs (forms, classifications and rules). The proposals are presented to Rate Bureau staff from representatives of member companies, insurance agents, advisory organizations (Insurance Services Office, National Council on Compensation Insurance and American Association of Insurance Services) Insurance Department personnel, and in the form of legislation and court decisions.

All proposals are referred to the appropriate technical committee (automobile, property or workers compensation) for review and formulation of any appropriate recommendations for consideration by the Governing Committee. The Governing Committee has the authority to accept or reject the technical committees' recommendations and only the Governing Committee has the authority to direct the Rate Bureau staff to prepare and submit a filing.

Any proposal adopted by the Rate Bureau and filed with the Commissioner of Insurance is filed on behalf of all member companies. Individual company filings are not permitted to be filed by the Rate Bureau.

Reporting of Statistical Data – Member companies are required to code North Carolina premiums and losses in accordance with standard statistical plans and procedures and report data to one of several statistical agents. Reports submitted by the companies to the statistical agents are examined and tested in order to detect and secure correction of any

History continued...

errors or omissions. The reports are aggregated and the consolidated statistical data are then used to prepare rate filings. The Rate Bureau itself collects, examines and tabulates some of the necessary ratemaking data.

In the current insurance world rate bureaus are relatively rare, as many states have opted for open competition or other regulatory processes. The North Carolina Legislature, however, continues to charge the Rate Bureau with promulgating rates for over \$6 billion in premium.

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

GOVERNANCE

“Each member of the Bureau writing any one or more of the above lines of insurance in North Carolina shall, as a requisite thereto, be represented in the Bureau and shall be entitled to one representative and one vote in the administration of the affairs of the Bureau.”

NCGS 58-36-5(b)



























MEMBERSHIP

“Before the Commissioner shall grant permission to any stock, nonstock, or reciprocal insurance company or any other insurance organization to write in this state it shall be a requisite that they shall subscribe to and become members of the Bureau.” NCGS 58-36-5(a)

At the beginning of the period covered by this report there were 647 companies. Of these 605 were members for automobile insurance, 592 were members for residential property insurance and 479 were members for workers compensation insurance.

As of August 31, 2005 there were 643 member companies, 598 for automobile insurance, 584 for residential property insurance and 469 for workers compensation insurance.









































Members added during this year:

MEMBER COMPANY	AUTO	PROPERTY	WC
Allied Property & Casualty Insurance Company			
AMCO Insurance Company			
Depositors Insurance Company			
Eastguard Insurance Company			
Encompass Indemnity Company			
G.U.I.C. Insurance Company			
IDS Property Casualty Insurance Company			
Nipponkoa Insurance Company, Ltd. (auto, prop)			
Progressive Premier Insurance Company of Illinois			
Progressive Universal Insurance Company of Illinois			
Sentry Casualty Company			
Stonebridge Casualty Insurance Company			
Vinings Insurance Company†			
Western General Insurance Company			

†Already an auto member but added WC

Membership continued...

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

MEMBER COMPANY	AUTO	PROPERTY	WC
American & Foreign Insurance Company			
American Protection Insurance Company			
Atlantic Indemnity Company			
Atlantic Security Insurance Company			
Connecticut Indemnity Company			
Consolidated American Insurance Company			
Fire & Casualty Insurance Company of Connecticut			
Frontier Insurance Company			
Globe Indemnity Company			
Gulf Insurance Company			
Pennsylvania Casualty Company			
Phoenix Assurance Company of NY			
Royal Insurance Company of America			
Safeguard Insurance Company			
South Carolina Insurance Company			
Specialty National Insurance Company			
Unisun Insurance Company			

GOVERNING COMMITTEE

“They shall (members), upon organization, elect a governing committee which governing committee shall be composed of equal representation by stock and non-stock members. The governing committee of the Bureau shall also have as nonvoting members two persons who are not employed by or affiliated with any insurance company or the Department and who are appointed by the Governor to serve at his pleasure.” NCGS 58-36-5(6)

The Constitution of the Rate Bureau details that there are fourteen members of the Governing Committee. Of the members six shall be non-stock members of the Rate Bureau, six shall be stock members and two are non-voting members appointed by the Governor.

Members of the Governing Committee are elected at the annual meeting. The term is for three years, although members can be elected for a second consecutive term. Terms are staggered so that two stock and two non-stock members are elected each year.

At the October, 2004 annual meeting these members companies were elected or continued to serve as voting members of the Governing Committee:

TERM EXPIRES	MEMBER COMPANY
2005	Hartford Fire Insurance Company NC Farm Bureau Mutual Insurance Company State Farm Mutual Automobile Insurance Co
2006	American Home Assurance Company Nationwide Mutual Insurance Company State Automobile Mutual Insurance Company Travelers Indemnity Company
2007	Cincinnati Insurance Company Erie Insurance Exchange Integon Indemnity Corporation Liberty Mutual Insurance Company Progressive Casualty Insurance Company

Governing Committee continued...

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

Ira Feuerlicht Assistant Vice President AIG-Dmestic Brokerage Group New York, New York	American Home Insurance Company
Jim Gron Branch Manager Cary, North Carolina	Cincinnati Insurance Company
Ronnie Chamberlain, AAI, CIC Vice President – Raleigh Branch Cary, North Carolina	Erie Insurance Exchange
Todd Martensen Product Manager Southington, Connecticut	Hartford Fire Insurance Company
Art Lyon Executive Consultant Winston Salem, North Carolina	Integon Indemnity Corporation
Cheryl Watts SE Division Underwriting Manager Charlotte, North Carolina	Liberty Mutual Insurance Company
John Thrasher NC Regional Vice President Raleigh, North Carolina	Nationwide Mutual Insurance Co
Roger Batdorff, Senior Executive Actuarial & Research Department Raleigh, North Carolina	NC Farm Bureau Mutual Insurance Co
Andrew Rose North Carolina Product Manager Richmond, Virginia	Progressive Casualty Insurance Co
Wes Florence NC Territory Manager Greer, South Carolina	State Automobile Mutual Insurance Co
Terry Pemberton, Manager Planning & Information Herndon, Virginia	State Farm Mutual Automobile Ins Co
Benjy Seagle, Industry Affairs Charlotte, North Carolina	Travelers Indemnity Company

In addition these non voting members represented the Governor of North Carolina at Governing Committee meetings: Max Offerman, Cary, North Carolina and John Wei, Cary, North Carolina.

CONSTITUTIONAL COMMITTEES

“The Governing Committee shall have . . . supervision and direction over all committees of the Bureau . . . and to appoint a Workers Compensation Committee, a Property Committee, an Automobile Committee and a Legal Committee, which committees shall have the authority, duties and functions as provided in Article IX of this Constitution and shall have independent power to authorize actions of the Bureau as delegated by the Governing Committee.”

NCRB Constitution, Article VIII(a)(b)

The Constitutional Committees are an integral part of the Bureau fulfilling its statutory requirements.

In general each committee, the Legal Committee differs some, has authority for these matters:

- (1) The making and the filing with the Commissioner of classifications, rules, rates, rating plans, policy forms and policy provisions;
- (2) The development and adoption of statistical plans and procedures for the collection of loss and expense experience;
- (3) The collection, compilation, and analysis of such statistical and other data relating to the line of insurance as are deemed necessary or desirable;
- (4) The administration of such rating systems as may become effective pursuant to law;
- (5) The furnishing upon request of pertinent information relating to classifications, rules, rates, rating plans, policy forms and policy provisions to Members affected thereby;

Constitutional Committees continued...

- (6) The coordination and cooperation with rating organizations, advisory organizations, insurers and other insurance organizations in the development, application, or implementation of classifications, rules, rates, rating plans, policy forms and policy provisions;
- (7) The taking of any other action deemed necessary or appropriate for the efficient and effective administration and regulation of the line of insurance by the Bureau.

A typical change works like this. The Bureau’s staff along with any necessary work from independent experts or statistical organizations prepares the initial detail and establishes the “frame work” for the change.

The Committee reviews this initial work and adds additional viewpoints, perhaps requests additional details or suggests alternative actions. After alternatives are explored and whatever additional required input is obtained the Committee votes on a final version with instructions to staff to file appropriately. *(The results of this process in actual filings, is detailed later in this report.)*

Currently, these members and their representatives are serving on the Constitutional Committees:

AUTOMOBILE COMMITTEE	
Steve Armstrong Allstate Insurance Company	Art Lyon Integon Indemnity Corporation
Douglas Eland Nationwide Mutual Insurance Company	Kathy Popejoy State Farm Mutual Automobile Ins Co
Tom McNicholas GEICO Indemnity Company	Geg Ciezadlo Liberty Mutual Insurance Company
Shannon Barber Hartford Fire Insurance Company	Michael Fitzgerald Travelers Companies
Roger Batdorff NC Farm Bureau Mutual Insurance Co	Amy Brown Lumbermens Mutual Casualty Company
Andrew Rose Progressive Casualty Company	Tim Ungashick USAA
Tim Miller Royal/Sun Alliance Group	

Constitutional Committees continued...

TASK FORCE ON RATING METHODOLOGY

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

PROPERTY COMMITTEE

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

LEGAL COMMITTEE

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

Constitutional Committees continued...

WORKERS COMPENSATION COMMITTEE	
Mary McQueen American Home Assurance Company	Roger Batdorff NC Farm Bureau Mutual Insurance Company
Charmaine German Builders Mutual Insurance Company	Ray Hinnant Ohio Casualty Insurance Company
Robert Johnson Harleysville Mutual Insurance Company	Alan Stowe PA National Mutual Casualty Insurance Company
Giggy Martindale Hartford Accident & Indemnity Company	Jeff Schmid St. Paul Fire & Marine Insurance Company
John Godfrey Key Risk Insurance Company	
Cheryl Watts Liberty Mutual Insurance Company	
Paul Ziegler Maryland Casualty Company	

In addition to these committees there are a number of subcommittees and task forces which have been appointed to provide additional expertise or resources for more specific matters. During the time covered by this report these committees have met and added to the ability of the Bureau to function smoothly.

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

Constitutional Committees continued...

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

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

PROPERTY RATING SUBCOMMITTEE	
David Border Allstate Insurance Company	Douglas Eland Nationwide Mutual Insurance Company
Kevin Randall American Modern Insurance Group	Roger Batdorff NC Farm Bureau Mutual Insurance Co
David Kelly Foremost Insurance Company	Susan Cleaver State Farm Fire & Casualty Company
Randy Krauss Travelers Property & Casualty Company	Christopher Swetonic United Services Automobile Association

NCRB ORGANIZATIONAL STRUCTURE

*“With the approval of the Governing Committee, hire and supervise the staff and personnel and produce and maintain the office space and office equipment necessary to the effective and efficient operation of the Bureau.”
NCRB Constitution, Article X(d)*

To fulfill its obligations the Bureau employs a staff of associates. Broadly speaking, each associate is a part of one of four operations units: Automobile Insurance, Property Insurance, Workers Compensation Insurance or Supporting Operations.

The following organizational charts represent how the Bureau was organized and staffed during the period September 1, 2004 through August 31, 2005.

SENIOR MANAGEMENT TEAM

Ray Evans
General Manager

David Sink (NCRB)
Director, Finance & Admin

Bob Greer (NCRB)
Manager, Internal Auditing

Lois Murphey
Executive Assistant

Jim Auman (NCRB)
Manager, IT

Sue Taylor (NCRB)
Director, WC

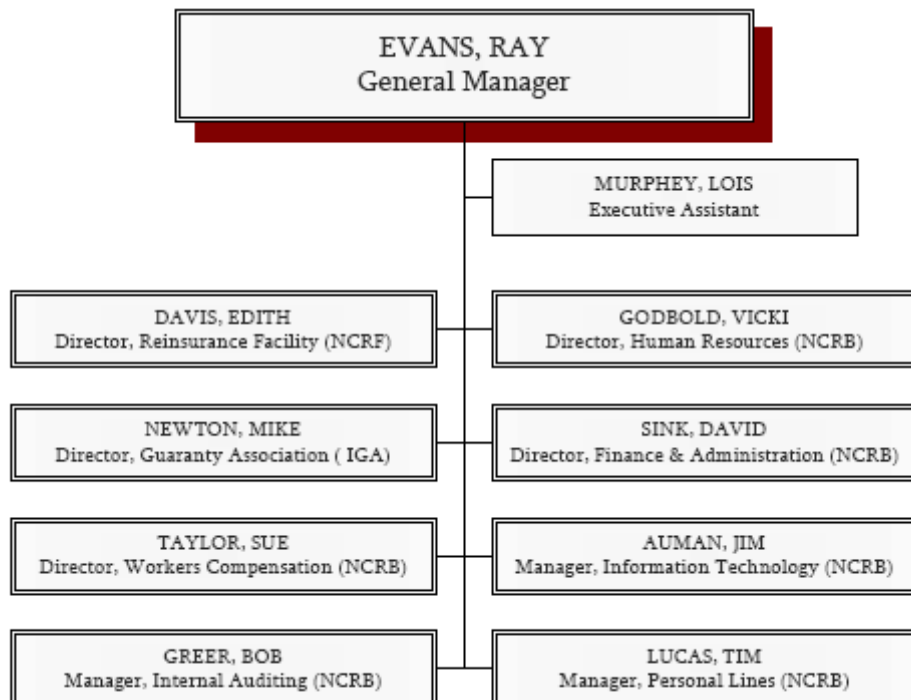
Tim Lucas (NCRB)
Manager, Personal Lines

Edith Davis (NCRF)
Director, RF

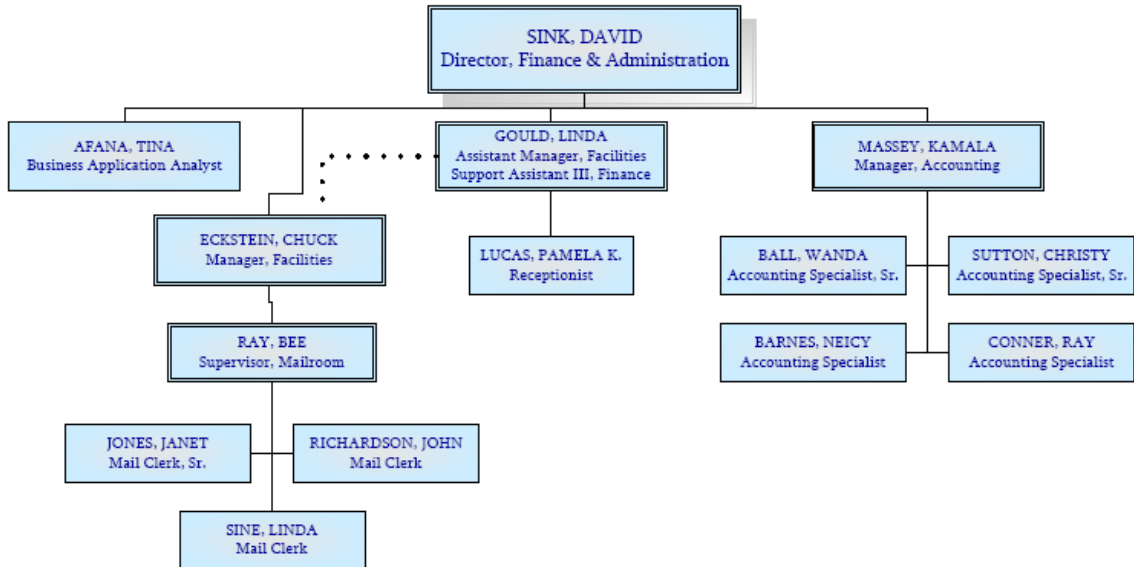
Vicki Godbold (NCRB)
Director, HR

Mike Newton (IGA)
Director, IGA

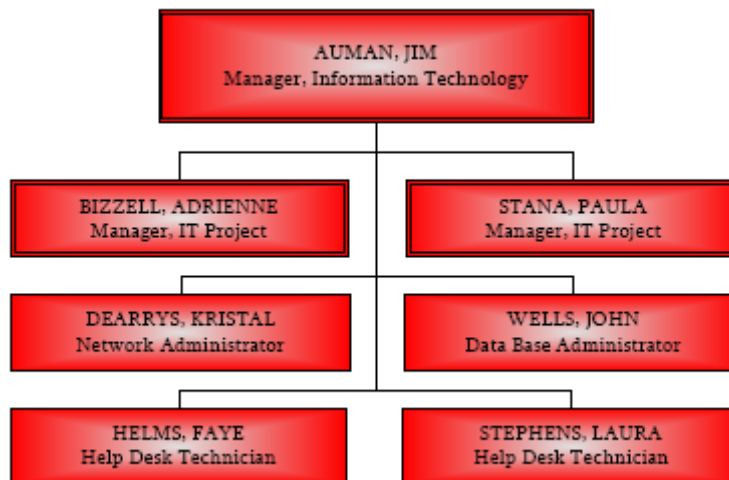
GENERAL MANAGER – ADMINISTRATION



FINANCE & ADMINISTRATION

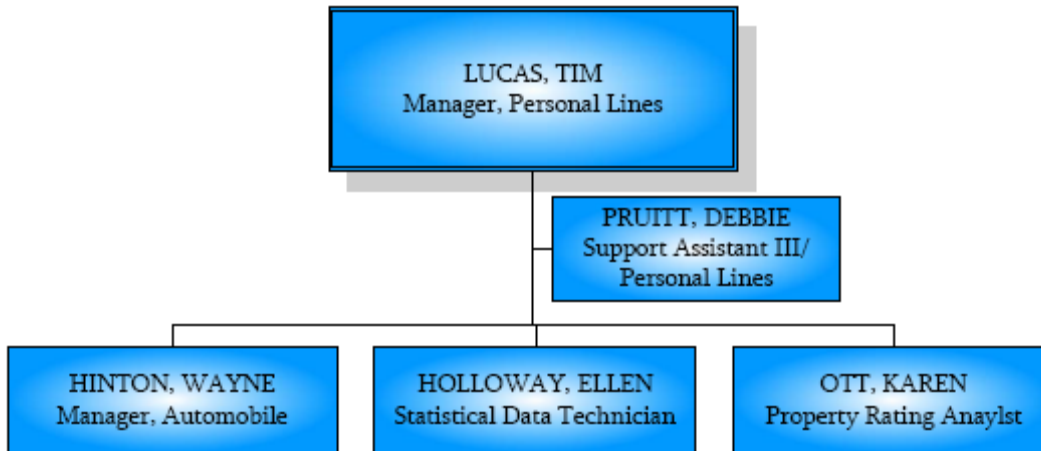


INFORMATION TECHNOLOGY & DATA PROCESSING

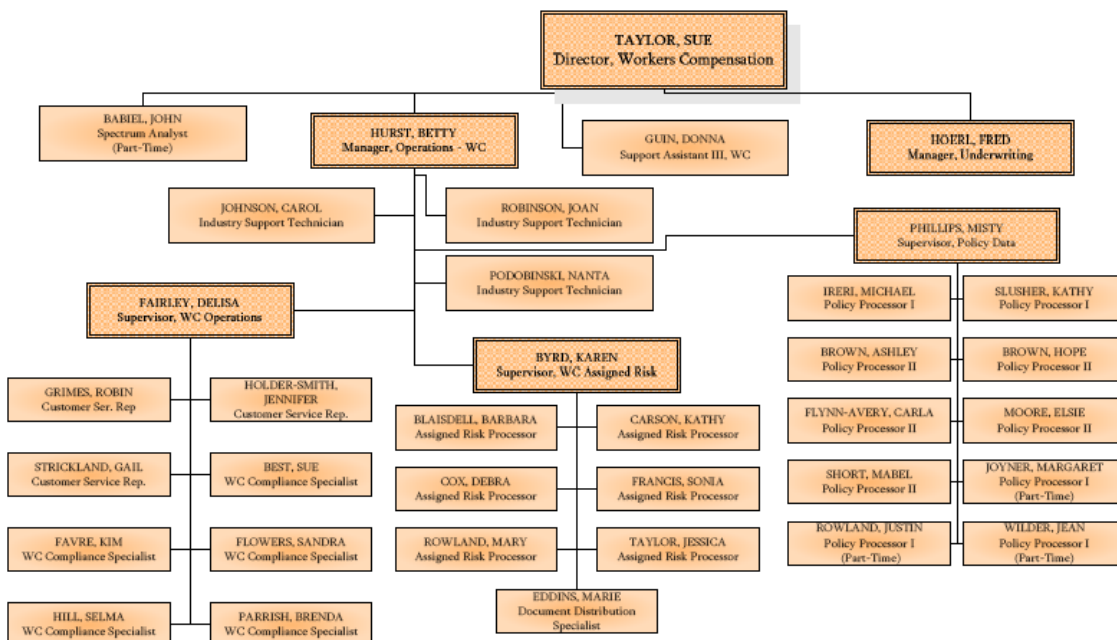


NCRB Organizational Structure continued...

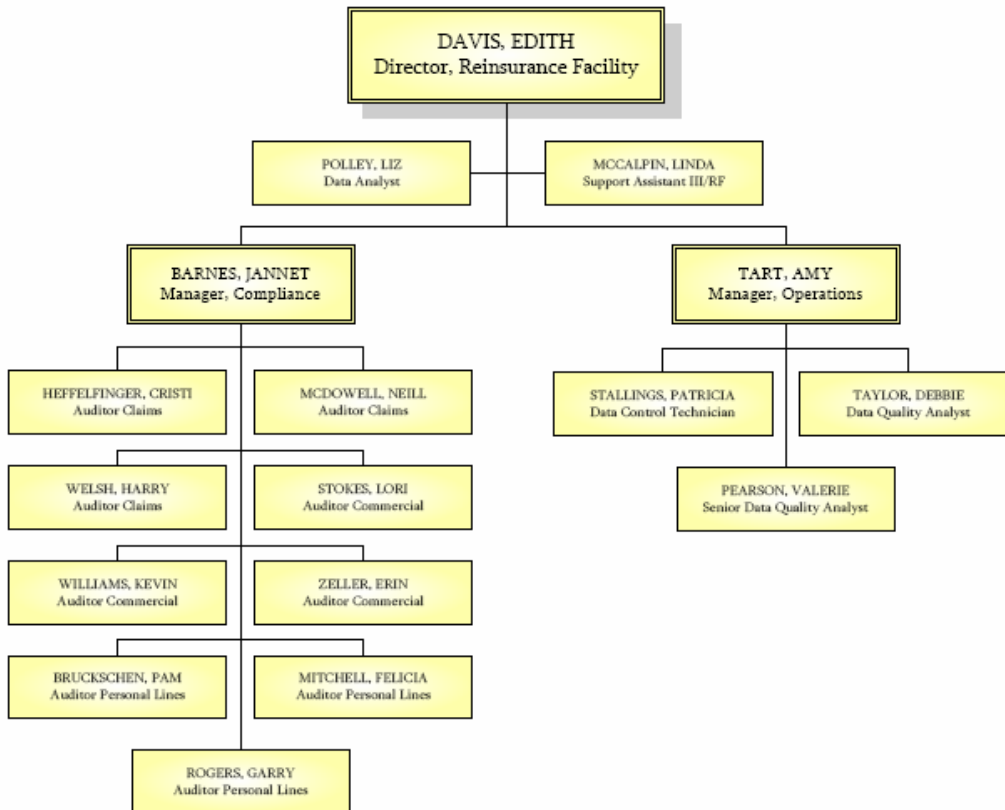
PERSONAL LINES



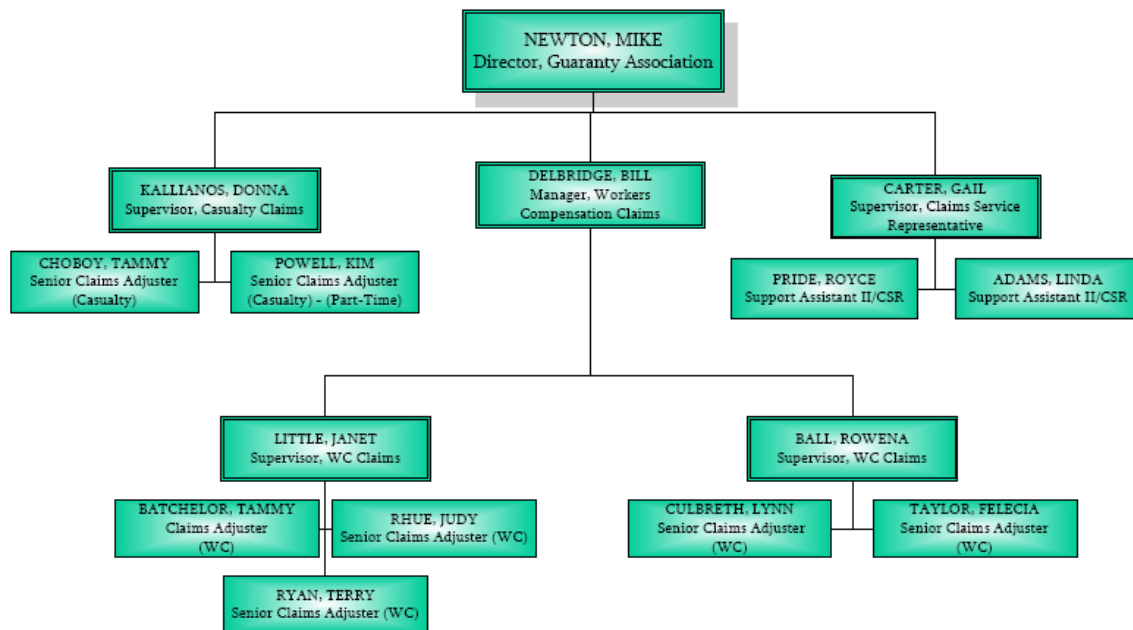
WORKERS COMPENSATION



REINSURANCE FACILITY



INSURANCE GUARANTY ASSOCIATION



INSURANCE OPERATIONS

PERSONAL LINES TEAM



AUTO INSURANCE ACTIVITIES

The following automobile insurance filings submitted by the Rate Bureau were approved or deemed approved by the Commissioner of Insurance during the year ended August 31, 2005:

FILING DATE	SUBJECT
September 21, 2004	Endorsement NC 03 50 09 04 – Amendment of Policy Provisions
June 2, 2005	Revision to Safe Driver Insurance Plan Aggressive Driving
July 13, 2005	Private Passenger Automobile Manual Revision

The following automobile insurance filings were submitted by the Rate Bureau to the Department of Insurance and were pending approval at the close of the period covered by this Report.

FILING DATE	SUBJECT
August 24, 2005	Revisions to Personal Auto Policy Rates and Forms

RATE REVISION

1) 2005 Private Passenger Automobile Rate Filing

On February 1, 2005, the Rate Bureau filed with the Commissioner of Insurance revised rates for private passenger automobiles and motorcycles. The filing proposed an overall rate level increase of 11.5% for private passenger automobile liability and physical damage and an increase of 0.2% for motorcycle liability. It was proposed to become effective October 1, 2005.

On March 31, 2005, the Commissioner of Insurance issued a Notice of Public Hearing in connection with this filing and scheduled a public hearing to convene on September 26, 2005.

On July 29, 2005, the Rate Bureau filed revisions to the filing as a result of two errors, one by Insurance Services Office (ISO) in aggregating the paid loss data for automobile liability coverages for one quarter and one by PCI in reporting the automobile liability excess paid losses for calendar year 2003. A simple correction of these two errors would have resulted in only slight adjustments to the filed liability rate level changes. However, it was determined that, since the loss trends that were selected were based on erroneous data and since more recent trend data was available, the liability trends should be revisited. It was also determined that since the liability trends were being revisited, the physical damage trend selections should also be revisited. As a result, the overall filed automobile rate level changed from 11.5% to a revised 9.6% and the motorcycle liability filed indications changed from 0.2% to -1.5%.

The matter remained pending before the Commissioner of Insurance at the close of the period covered by this Report.

DEVIATIONS

As of September 30, 2005, there were 196 member companies with approved rate deviations applicable to insurance for non-fleet private passenger automobiles. Ten companies' deviations applied to physical damage coverages only, 178 companies' deviations applied to both the liability and physical damage coverages and 8 companies had an Installment Payment Plan/Waiver only deviation.

APPEALS BY INSUREDS

There were 192 written inquiries during the year regarding potential at fault accidents. Of the 192 inquiries, the Companies voluntarily reduced/removed the “points” in 23 of these inquiries. Of the remaining, the Rate Bureau was requested by insureds to conduct and conducted 31 hearings under the provisions of G.S. 58-36-1(2). All cases involved disputed assignment of “points” under the Safe Driver Insurance Plan. The Rate Bureau sustained the carrier’s rating in 16 of the cases, ruled for the insured in 12 cases so that “points” assessed were removed entirely, and ruled in three hearings that the number of “points” charged should be reduced.

LEGISLATION

The North Carolina General Assembly met in 2005 and, except for the appropriations bill (S.B. 622), which among many other things increased the cost of MVRs from \$5 to \$8, enacted no legislation that significantly affected automobile insurance coverages subject to the Rate Bureau’s jurisdiction.

PROPERTY INSURANCE ACTIVITIES

The following property insurance filings submitted by the Rate Bureau were disapproved by the Commissioner of Insurance during the year ending August 31, 2005:

FILING DATE	SUBJECT
December 7, 2004	<ul style="list-style-type: none"> • HO 2000 Policy Program – HO 04 91 10 00 Coverage B – Off Premises • HO 32 25 10 04 – Dwelling Under Construction – Theft Coverage – Form Filing • Historic Home Endorsements – Forms Filing
December 8, 2004	<ul style="list-style-type: none"> • Revision to HO 2000 Policy Program – Withdraw NC Exception Rules 409 & 514 Rate/Rule Filing
January 18, 2005	<ul style="list-style-type: none"> • Homeowners 2000 Policy Program – Rule 406 Deductibles – Maximum Additional Charge – Rate Filing
February 4, 2005	<ul style="list-style-type: none"> • Homeowners 2000 Enhancement Policy Program – HE 00 07 10 04 – Homeowners Enhancement – Form Filing
February 15, 2005	<ul style="list-style-type: none"> • Homeowners 2000 Manual Supplement – Homeowners Enhancement Coverage Rate/Rule Filing
February 23, 2005	<ul style="list-style-type: none"> • Homeowners 2000 Policy Program – Protection Class E – Rule Filing
March 4, 2005	<ul style="list-style-type: none"> • Homeowners 2000 Policy Program – Rule 505 – Earthquake Coverage
April 28, 2005	<ul style="list-style-type: none"> • Homeowners Policy Program – Spouse Access Endorsement HO 32 01 06 05 Form Filing • Dwelling Policy Program – Spouse Access Endorsement – DP 32 01 06 05 – Form Filing
May 20, 2005	<ul style="list-style-type: none"> • Homeowners Policy Program – Jewelry, Watches And Furs Sub Limit – Form/Rule/Rate Filing
May 26, 2005	<ul style="list-style-type: none"> • Homeowners Policy Program – Other Structures On Premises – Windstorm or Hail Exclusion – Rule/Rate Filing • Dwelling Policy Program – Special Provisions – NC DP 32 32 04 03 – Forms Filing
June 1, 2005	<ul style="list-style-type: none"> • Dwelling Policy Program – Inflation Cost Index – Rule Filing • Homeowners Policy Program – Inflation Cost Index – Rule Filing
August 23, 2005	<ul style="list-style-type: none"> • Homeowners Policy Program – Hurricane Percentage Deductible Factor – Rule/Rate Filing

Property Insurance Activities

RATE REVISIONS

On February 25, 2005, the Rate Bureau filed with the Commissioner of Insurance revised rates for Homeowners insurance. The filing proposed an overall rate level increase of 12.1%. It was proposed to become effective October 1, 2005.

On March 18, 2005, the Rate Bureau entered into a Settlement Agreement with the Commissioner of Insurance agreeing to an overall increase of 2.2% with changes varying by coverage and territory. This revision became effective on August 1, 2005.

DEVIATIONS

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

	2004	2005
Fire and Extended Coverage	85	86
Homeowners	204	199
Mobile Home Owner MH(C)	24	22
Mobile-Homeowners MH(F)	22	22

LEGISLATION

The North Carolina General Assembly met in 2005 and enacted no legislation that affected property insurance coverages subject to the Rate Bureau's jurisdiction.

WORKERS COMPENSATION INSURANCE



North Carolina Rate Bureau
2005 Annual Report

Workers Compensation Insurance continued...

The Workers Compensation Department of the North Carolina Rate Bureau has continued to work toward achieving its mission of:

- Being an Efficient Data Collection Operation
- Proactively Servicing the Member Companies
- Working Closely With the Supporting Organizations
- Developing the Staff of the Department to Become More Effective and Able to Assume Increased Responsibility

The Workers Compensation Committee has been actively involved this year with the following contributions:

- The sanctioning of several NCCI Item Filings which were forwarded to the North Carolina Department of Insurance and approved. These include the introduction of the Domestic Terrorism, Earthquakes and Catastrophe Endorsement; revision to several forms; and the clarification and updating of several classification codes.
- The approval for filing a premium charge for Endorsement WC 00 03 13: "Waiver of our Right to Recover from Others Endorsement". This premium charge has been filed with the North Carolina Department of Insurance and is awaiting approval.
- The conclusion of both the advisory loss cost and residual market rate filings effective April 1, 2005.
- The submission of both the 2005 advisory loss cost and residual market rate filings on September 1, 2005.
- The decision to include self-insured data in the classification analysis of the annual loss cost review made on September 1, 2005.
- The approval of a written Dispute Resolution Process effective August 31, 2005.
- The approval of a "Hard Copy Policy Keying Charge" of \$50 to be effective June 1, 2006.
- The approval of a "Charge for Delinquent and Rejected Unit Stat Record Data" of \$50 to be effective June 1, 2006.
- A review of the governance of the Workers Compensation Committee with resulting recommendations for improvement.

In 2005 the Workers Compensation Department placed emphasis on education.

A Workers Compensation Technical College was developed to provide opportunities to all associates interested in improving their skills and knowledge in many areas. All associates were encouraged to attend and teach classes as a means to share their Workers Compensation knowledge and any special skills they have with others in the organization. Since January 2005, 33 classes have been offered with most associates participating in the process.

A three-hour continuing education course for agents on Assigned Risk was developed in 2005. This course was conducted three times during the year.

LOSS COST/RATE FILINGS

On September 3, 2004, the North Carolina Rate Bureau submitted separate workers compensation filings for advisory loss costs and for residual market rates to the Commissioner of Insurance. The proposed effective date of both filings was April 1, 2005.

2004 Advisory Loss Costs

The advisory loss cost filing proposed an increase of +8.7% in loss costs for industrial classifications and an average pure premium decrease of -3.9% for the "F" classifications.

After negotiations with the North Carolina Commissioner of Insurance, a Settlement Agreement and Consent Order was approved modifying the overall loss cost change for the industrial classifications to +2.0% as compared to the advisory loss costs currently in effect. The effective date of the loss cost filing remained April 1, 2005.

2004 Residual Market Rate Filing

The residual market rate filing also proposed an increase of +8.7% in residual market rates for the industrial classifications.

As a result of negotiations with the Commissioner of Insurance, a Settlement Agreement and Consent Order was approved modifying the overall rate level change for the industrial classifications to +4.0% relative to the residual market rates already in effect. The effective date of the residual market rate filing also remained April 1, 2005.

NORTH CAROLINA VOLUNTARY AND ASSIGNED RISK PREMIUM

North Carolina Workers Compensation
Premium Growth from 2002 to 2004 - Assigned Risk, Voluntary, and Total

<u>Direct Written Premium</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Annual Rate of Change</u>	<u>2003 to 2004 % Change</u>	<u>2002 to 2003 % Change</u>
Assigned Risk Premium	100,308,167	100,085,360	76,297,453	14.7	0.2	31.2
Voluntary Premium	1,040,365,362	957,410,911	886,692,558	8.3	8.7	8.0
Total Premium	1,140,673,529	1,057,496,271	962,990,011	8.8	7.9	9.8

North Carolina ranked #10 nationally for Workers Compensation Total premium in 2004 according to the *National Underwriter*†.

ASSIGNED RISK

The North Carolina Rate Bureau is the Plan Administrator for the North Carolina Workers Compensation Assigned Risk Program. This residual market mechanism assigns the “difficult to place” employers to insurance carriers for policy issuance when they are unable to procure a policy in the standard market.

Improvements in Assigned Risk Processes

Within the 2005 year, the Assigned Risk Unit focused on reducing application processing time. Several new internal processes were implemented to improve the efficiency. One area that was changed involved the increased level of communication with the agents submitting applications to the Bureau. Rather than returning applications for corrections, the Assigned Risk Processors now call the agents to obtain the information. This has allowed the unit to focus on getting North Carolina employers coverage as quickly and as accurately as possible.

†*National Underwriter (P&C)*, August 22/29, 2005, Vol. 109, No. 32.

Workers Compensation Insurance continued...

The production levels in the unit have increased during the year while the level of quality in processing applications has not diminished. Each Assigned Risk Processor is committed to the Production and Quality Standards as set forth by the organization.

The data below shows that policy count is increasing each of the last 3 years while average premium continues to decrease.

North Carolina Workers Compensation Assigned Risk Policy Count and Premiums

	09/01/04 to 08/31/05	09/01/03 to 08/31/04	09/01/02 to 08/31/03	Annual Rate of Change	08/31/04 08/31/05 % Change	08/31/03 08/31/04 % Change
<u>Policy Count</u>						
New	19,901	19,004	16,496	9.8	4.7	15.2
Renewal	17,721	14,759	10,930	27.3	20.1	35.0
Total	37,622	33,763	27,426	17.1	11.4	23.1
<u>Written Premium</u>						
New	50,665,342	47,112,789	50,298,228	0.4	7.5	-6.3
Renewal	55,799,617	56,004,145	46,347,231	9.7	-0.4	20.8
Total	106,464,959	103,116,934	96,645,459	5.0	3.2	6.7
<u>Average Premium</u>						
New	2,546	2,479	3,049	-8.6	2.7	-18.7
Renewal	3,149	3,795	4,240	-13.8	-17.0	-10.5
Total	2,830	3,054	3,524	-10.4	-7.3	-13.3

Servicing and Direct Assignment Carriers

The North Carolina workers compensation involuntary market is serviced by two types of carriers, direct assignment carriers and servicing carriers. Direct assignment carriers make annual elections effective January 1 of each year to service the market and receive a quota allotment equal to their share of the voluntary market. The results of the involuntary market policies they service are the responsibility of the direct assignment carrier only and are not reinsured through the National Reinsurance Pool.

Workers Compensation Insurance continued...

Servicing carrier selections are made every three years during a bid process which involves making a commitment to service a proposed percentage of the involuntary market that is left after the direct carriers receive their allotment. The last bid process was effective January 1, 2005. The results of the involuntary market policies for servicing carriers are fully reinsured through the National Reinsurance Pool.

The quota percentages are established each July 1st based on the previous year's written premium. Currently servicing carriers service 75 percent of the involuntary market and direct assignment carriers service 25 percent.

The following four carriers are the Servicing Carriers in North Carolina with terms from January 1, 2005 to December 31, 2007:

- Companion Property & Casualty Insurance Company
- Key Risk Insurance Company
- L M Insurance Corporation
- Travelers Indemnity Company

The following six carriers now function as Direct Assignment Carriers with terms from January 1, 2005 to December 31, 2005:

- American Interstate Insurance Company
- American Zurich Insurance Company
- Cincinnati Insurance Company
- Continental Casualty Company
- Granite State Insurance Company
- Hartford Underwriters Insurance Company

ManageAR

ManageAR is a web-based assigned risk workers compensation application system that has been developed by the North Carolina Rate Bureau. Agents can complete applications and submit premium payments electronically through the new system. Finance companies can also utilize the electronic funds transfer option.

In order to build a user-friendly system, the North Carolina Rate Bureau conducted surveys with a wide range of North Carolina agencies and premium finance companies. After the initial prototype was developed three focus groups were conducted with agents and internal processors. Based on the feedback, various ideas and suggestions from the agents were built into the new system.

The North Carolina Rate Bureau staff will go live with the new system October, 2005. A small user group comprising several larger agencies will begin testing the system beginning November, 2005. ManageAR will be available to all agencies December, 2005.

COMPLIANCE

The Compliance Unit has the responsibility for several areas, including Experience Ratings, Unit Statistical Report (USR) processing, and handling Requests for Ownership Information (ERM-14). The unit also serves as a first line resource for carriers, agents and employers requiring assistance with NCCI Basic Manual interpretations and appropriate classifications for North Carolina employers.

	<u>2004</u>	<u>2003</u>
Experience Ratings	54,655	53,606
Unit Statistical Reports	181,637	181,056

In addition, the Compliance Unit processed 2,693 ERM-14's in the 12 months ending August 31, 2005.

POLICY ENTRY

Process Cost Management

The Policy Entry unit completed a Process Cost Management Study in 2005. The purpose of the study was to estimate the costs associated with each of the basic processing tasks performed in Policy Entry and use the results to improve the efficiency of the department.

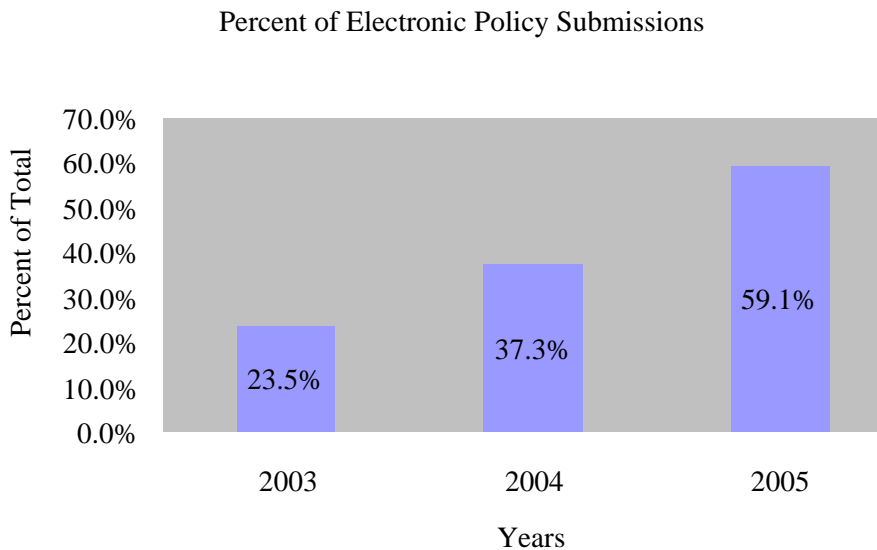
Workers Compensation Insurance continued...

The results of the study compared the North Carolina Rate Bureau costs to process policies that are electronically submitted to policies that are submitted in hard copy format. The following table shows this comparison:

	Cost Per <u>Policy</u>
Electronic Submissions	\$ 3.53
Hard Copy Submissions	\$14.65

Electronic Policy Submissions

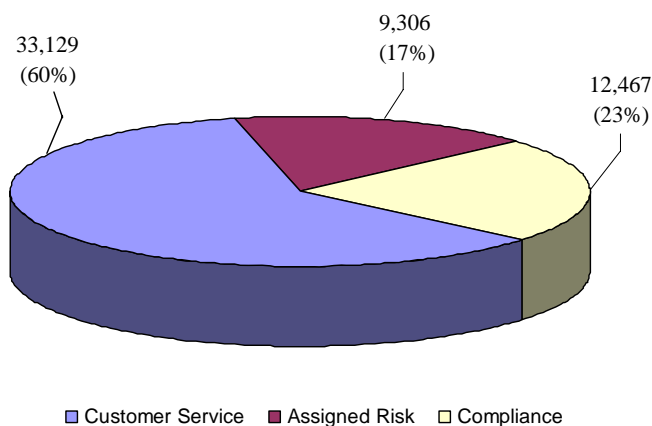
The percentage of policies received electronically has increased over the last three years as the following chart shows:



INFORMATION CENTER

Phone Calls

Total Calls: 54,902
Average Per Week: 1,056



In 2004 the Information Center was established in the Workers Compensation Department. This step was an effort to establish a single point of contact that would meet customer needs. To enhance this area, knowledge-based tools have been developed that promote consistency and efficiency in responses to customers. Information Center associates were enrolled in formal customer service training. As efforts continue to develop tools and to establish more efficient processes, the Information Center has the potential to become an organization-wide resource center.

TECHNICAL

Spectrum Partners, LLC is made up of five bureaus (North Carolina, Minnesota, Wisconsin, Massachusetts and New York) that have developed a processing system and a database that is the foundation for many of the workers compensation products and services in the state.

Workers Compensation Insurance continued...

Spectrum Capabilities

Tool	Description	NCRB
Browser based platform	Enables future integration with web-based technology for new components and subsystem development	Yes
Policy Tape Transactions	Provides the ability to electronically process policy changes	Yes
Notes	Allows users to enter specific notes to the employer's file.	Yes
ManageUSR	Allows carriers to view their USR's online (Will be developing a similar product in 2006)	No*
Reminders	Triggers an action or reminds the user that a next step action is needed	Yes
Unit Stat Tracking	Tracks expected dates of units, generates reports notifying carriers that reports are due	Yes
USR Auto Reject	Generates carrier reports showing USR's rejected and reason for rejection	Yes
Inspection Package	Allows user to schedule an inspection and enter inspection results directly into Spectrum	No*
Assigned Risk Quota Management	Apportions policies to Assigned Risk carriers based on reported premium	Yes
Ownership	Allows users to enter ERM-14 information directly into Spectrum for ownership rulings	Yes
Compliance/Non-compliance	Captures and displays to users compliance or non-compliance status	Yes
USR Fining	Tracking and billing of delinquent USR's	No**
Hard copy keying charges	Tracking and billing of hardcopy policy entry	No**
Auto Load	Automatic loading of electronic policy and USR submissions received from carriers	Yes
ManageAR Integration	The integration of Spectrum A/R sub-system with the ManageAR System	Yes

**Developed but not in use in North Carolina at this time*

***Will be utilized in 2006*

INSPECTIONS

The inspection program was revised in 2005. A “Classification Survey” was implemented whereby information is compiled on the operations of the employer. Websites and other media that an employer might use to describe the services and products they are offering are reviewed. The North Carolina Rate Bureau educates the employers on how class codes are determined and provides them with an explanation of why a certain classification may or may not be applicable to their business. This new process often results in resolving a number of class code issues without physical inspections.

Random physical inspections have been eliminated and a formal process has been developed for requesting a physical inspection. Third party vendors are utilized to perform any needed physical inspections. These changes in the program have reduced the number of physical inspections performed over the past 12 month period by 50 percent.

APPEALS AND DISPUTES

In 2005 a formal dispute process was developed for submitting and hearing appeals. It is the responsibility of the North Carolina Rate Bureau to be consistent and timely in the handling of the appeals and disputes that are submitted. In 2005 the number of appeals doubled over 2004. The three main areas of appeals are:

- Classification codes
- Audited premiums
- Interpretation of independent contractor vs. sub-contractor

SUPPORT OPERATIONS

*“The Bureau when created shall adopt such rules and regulations for its orderly procedure as shall be necessary for its maintenance and operation.”
NCGS 58-36-5(c)*

In addition to the units of the Rate Bureau that are directly involved in insurance operations there are a significant number of associates involved in supporting activities.

In general, these activities are centered in four areas: Accounting, Human Resources, Information Services and Facilities Management.

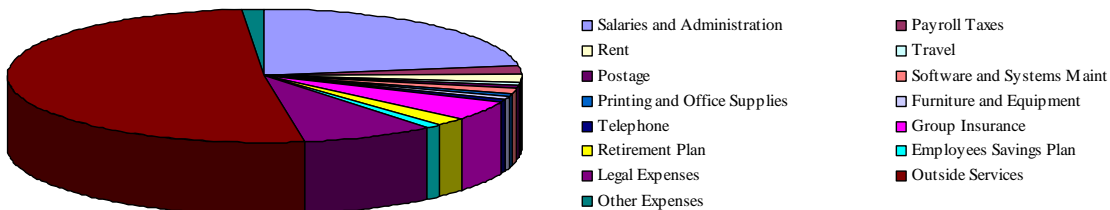
The accounting unit is responsible for all of the activities and operations related to assessments, payables, receivables and payroll.

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

OPERATING EXPENSES

The following data summarizes the Rate Bureau operating expenses for comparable periods ending August 31, 2004 and August 31, 2005:

	2004	2005	CHANGE
Salaries and Administration	\$2,281,996	\$2,454,232	7.55%
Payroll Taxes	\$206,651	\$239,919	16.10%
Rent	\$211,139	\$220,438	4.40%
Travel	\$42,460	\$42,484	0.06%
Postage	\$77,911	\$96,796	24.24%
Software and Systems Maintenance	\$150,779	\$210,358	39.51%
Printing and Office Supplies	\$62,077	\$54,364	-12.42%
Furniture and Equipment	\$90,072	\$43,333	-51.89%
Telephone	\$46,656	\$64,493	38.23%
Group Insurance	\$481,557	\$54,275	-5.67%
Retirement Plan	\$182,579	\$180,620	-1.07%
Employees Savings Plan	\$117,561	\$138,647	17.94%
Legal Expenses	\$841,544	\$728,129	-13.48%
Outside Services	\$5,168,112	\$5,254,739	1.68%
Other Expenses	\$131,162	\$138,437	5.55%
TOTAL	\$10,092,255	\$10,321,264	2.27%



HUMAN RESOURCES REVIEW

This year we have continued our responsibilities of administering HR policies, programs and practices.

New for 2005, we introduced the first initiative of our Wellness Strategy in February & April with a voluntary weight loss program. Fifty-five associates participated with a total of 256.2 pounds lost. We are currently in our third session.

In May, we introduced our second initiative by offering membership with Gold's Gym at discount prices, we have 16 associates participating.

In July, we held our first annual Wellness Week. During the week our benefit vendors were on-site for Q&A's, a Lunch-n-Learn session on Stress Management was offered, associates participated in cholesterol and blood pressure screenings, and a seminar on the major components of wellness including proper nutrition, regular exercise, heart health, balanced lifestyle and stress management was held.

Our wellness strategy is two fold, the first being a healthy associate and the second a decrease in health care costs.

Educating our associates is an on-going initiative which consisted of the following this year:

- Year-to-date training coordination included 31 associates during the 1st quarter, 98 associates during the 2nd quarter and 92 associates in the 3rd quarter.
- We coordinated Diversity Training for all associates during August and September.
- We coordinated Management training in September and will be conducting associate training in November.

Performance of our associates is essential in providing service to our member companies. Written performance feedback is provided by management in January with the Annual Performance Evaluation and in June with a goals review.

Human Resources Review

Staffing year-to-date includes 3 new hires in the Rate Bureau, and 2 associates transferred into the Rate Bureau. We had 4 associates terminate employment and 1 retirement this year.

We currently have 99 associates comprising all three Organizations.

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

INFORMATION TECHNOLOGY REVIEW

The IT Department is a shared department that serves the IT service delivery and support requirements of the three Organizations (NCRF, NCIGA and NCRB). The department is divided into two units, Infrastructure and Projects, which report to the IT Manager. The Infrastructure Staff consists of a Database Administrator, Network Administrator, and two Help Desk Technicians, while Projects consists of two Project Managers who handle the full IT Project Portfolio for the Organizations.

The mission of our department is to be accountable for managing the planning, acquisition, maintenance and support of technology solutions that align with the Organizations business strategies, objectives and processes. To assist the business units with better understanding their technology needs, IT has worked with the business units to plan the staffing and development of Business Application Analysts (BAA) in each unit. These new positions help translate business requirements into technology needs and act as a resource for projects handling key service delivery tasks such as QA, training and documentation. As of this report, the Finance department has hired a full time BAA, and a second is being recruited for NCRF, with plans for additional areas being assessed for 2006.

For tasks that do not require full-time staffing, IT relies on its third-party vendors for supplemental efforts. These vendors assist with technical, project, consulting, coaching, and legal matters.

Information Technology Review

IT is governed by a technology and architecture framework that complements the three separate but co-existing Organizations. This framework guides us to choose solutions that are mature, have industry-wide acceptance, follow a service-oriented architecture and can easily integrate within our current IT infrastructure.

Senior Management continues to act as the Organizations' "project steering committee". Over the last year, IT delivered the following services: 1) additional Document Management capability for the Organizations to archive important documents for business continuity purposes; 2) a new Corporate Identity for each Organization; 3) a Member Company Assessment application; 4) improvements to the existing Industry Data collection web-based applications; 5) enhancements to the insolvency processing system of the IGA; 6) access to internet-based conferencing via Microsoft Live Meeting; 7) Organization-wide Microsoft Office upgrade; 8) additional fax-from-desktop capability; 9) remote access from home via a secure VPN; 10) a full scale infrastructure security assessment; 11) audit and control software; 12) contributions to the Organizations' Business Continuity effort (of which IT Disaster Recovery is a major factor); and 13) major infrastructure upgrades to accommodate upcoming project deliverables (including redundant web farms and test systems).

Effort continues on the following projects initiated in 2004: 1) EDGE (the NCRF's Information System project); 2) a membership-based Contact Management System for the Organizations to track their customers, 3) a secure Web-Portal for customer access to the Organizations website; 4) Interfaces from business unit applications into the Accounting system for EFT and Billing purposes; and 5) a web-based workers comp Assigned Risk application

New projects will be initiated in 2006 to support workers comp's initiatives to allow carriers to manage Unit Statistical Reporting as well as the fining of late USR's and manual policy entry.

CONTACT INFORMATION

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