

NORTH CAROLINA RATE BUREAU

POST OFFICE BOX 176010
RALEIGH, NORTH CAROLINA 27619-6010

RAYMOND F. EVANS, JR. CPCU
General Manager

5401 SIX FORKS ROAD
RALEIGH, NORTH CAROLINA 27609-4435

TELEPHONE (919) 783-9790
FACSIMILE (919) 783-7467

JERRY G. HAMRICK
Workers Compensation Manager

F. TIMOTHY LUCAS
Personal Lines Manager

DAVID E. SINK, JR.
Accounting Manager

September 1, 2000

T W E N T Y - T H I R D A N N U A L R E P O R T

This Report covers the activities of the North Carolina Rate Bureau during the period from September 1, 1999 through August 31, 2000.

ORGANIZATION

The North Carolina Rate Bureau was established effective September 1, 1977, as mandated by the North Carolina General Assembly with the passage of House Bill 658 which was ratified on June 30, 1977, and which was later codified as Article 36, Chapter 58, General Statutes of North Carolina.

GOVERNING COMMITTEE

The following member insurance companies, elected in accordance with the Constitution of the Rate Bureau, were serving on the Governing Committee as of August 31, 2000:

Stock

Allstate Insurance Company
Great American Insurance Company
Hartford Fire Insurance Company
Integon General Insurance Corporation
Royal Insurance Company of America
St. Paul Fire & Marine Insurance Company

Non-Stock

Auto-Owners Insurance Company
Harleysville Mutual Insurance Company
Liberty Mutual Insurance Company
NC Farm Bureau Mutual Insurance Company
State Automobile Mutual Insurance Company
State Farm Mutual Automobile Insurance Company

Mr. Max Offerman of Cary, North Carolina served as a non-voting public member of the Governing Committee during the period covered by this Report.

During the Twenty-Second Annual Meeting held October 20, 1999, Great American Insurance Company, St Paul Fire & Marine Insurance Company, State Automobile Mutual Insurance Company and State Farm Mutual Automobile Insurance Company were elected as members of the Governing Committee for three-year terms.

The Governing Committee met seven times during the year, including three telephone conferences. Integon General Insurance Corporation served as Chairman of the Governing Committee during the year. North Carolina Farm Bureau Mutual Insurance Company served as Vice-Chairman.

MEMBERSHIP

Membership in the North Carolina Rate Bureau is required of all companies licensed in North Carolina to write any of the coverages subject to the jurisdiction of the Rate Bureau.

During the period covered by this Report there were eighteen additions to the membership. These were the following companies:

American Compensation Insurance Company	Mendakota Insurance Company
AmGuard Insurance Company	National Trust Insurance Company
B C S Insurance Company	NorGuard Insurance Company
Companion Commercial Insurance Company	Ohio Security Insurance Company
Everest Reinsurance Company	Pacific Specialty Insurance Company
Federated Service Insurance Company	Rockwood Casualty Insurance Company
Florida Physicians Insurance Company	Service Insurance Company
Front Royal Insurance Company	T. H. E. Insurance Company
Highmark Casualty Insurance Company	Workmen=s Auto Insurance Company

The following companies withdrew from membership during the year covered by this Report:

Gulf Underwriters Insurance Company
L M I Insurance Company
United Equitable Insurance Company

As of August 31, 2000 there were 640 member companies -- 599 licensed to write the automobile coverages, 587 licensed to write the residential property coverages and 480 licensed to write workers compensation insurance.

CONSTITUTIONAL COMMITTEES

The Constitution provides that the Governing Committee shall establish certain standing committees which shall have the authority, duties and functions as provided in Article IX of the Constitution and which shall have independent power to authorize actions of the Rate Bureau as delegated by the Governing Committee.

Following are the four standing committees which served during the year ended August 31, 2000:

Automobile Committee

Allstate Insurance Company
Hartford Fire Insurance Company
Integon General Insurance Corporation
Liberty Mutual Insurance Company
Lumbermens Mutual Casualty Company
Nationwide Mutual Insurance Company
NC Farm Bureau Mutual Insurance Company
State Farm Mutual Automobile Insurance Co
Travelers Indemnity Company

Workers Compensation Committee

Builders Mutual Insurance Company
Harleysville Mutual Insurance Company
Hartford Accident & Indemnity Company
Liberty Mutual Insurance Company
Maryland Casualty Company
NC Farm Bureau Mutual Insurance Company

Property Committee

Allstate Insurance Company
Lumbermens Mutual Casualty Company
Nationwide Mutual Insurance Company
NC Farm Bureau Mutual Insurance Company
Pennsylvania National Mutual Casualty Ins Co
Royal Insurance Company of America
The Shelby Insurance Company
State Capital Insurance Company
State Farm Fire & Casualty Company

Legal Committee

Liberty Mutual Insurance Company
Nationwide Mutual Insurance Company
St. Paul Fire & Marine Insurance Company
State Farm Mutual Automobile Insurance Co
Travelers Indemnity Company

**Ohio Casualty Insurance Company
Pennsylvania National Mutual Casualty Ins Co
Royal Insurance Company of America
St. Paul Fire and Marine Insurance Company
Travelers Insurance Company**

The Automobile, Property and Workers Compensation Committees are concerned with all matters pertaining to the respective coverages subject to the Bureau's jurisdiction, including the development of classifications, rules, rates, rating plans, policy forms and policy provisions; the administration of such rating systems as may become effective pursuant to laws; and the furnishing, upon request, of pertinent information relating to classifications, rules, rates, rating plans, policy forms and policy provisions to member companies. The Legal Committee has the responsibility of assisting the Governing Committee, the standing committees and the Rate Bureau Staff and Counsel in legal matters.

The Automobile Committee met five times during the year, including four telephone conferences. Allstate Insurance Company served as Chairman and Lumbermens Mutual Casualty Company served as Vice-Chairman of that Committee throughout the year covered by this Report.

The Property Committee met two times during the year, including one telephone conference. North Carolina Farm Bureau Mutual Insurance Company served as Chairman and State Farm Fire and Casualty Company served as Vice-Chairman of that Committee throughout the year covered by this Report.

The Workers Compensation Committee met three times during the year, including one telephone conference. During the year covered by this Report, Travelers Insurance Company was elected as Chairman and Liberty Mutual Insurance Company was elected as Vice-Chairman of that Committee.

The Travelers Indemnity Company served as Chairman of the Legal Committee throughout the year covered by this Report. Although the Legal Committee held no meetings during the year, members were kept aware of developments.

LEGISLATION

With respect to the Rate Bureau's operations and lines of insurance subject to the Rate Bureau's jurisdiction, the 2000 Session of the General Assembly of North Carolina enacted the following legislation:

HB 1854 - Sets the insurance regulatory charge at 7% of the premium tax for the 2000 calendar year. This Bill was ratified on July 11, 2000.

AUTOMOBILE INSURANCE ACTIVITIES

The following automobile insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2000:

<u>Effective Date</u>	<u>Subject</u>
February 1, 2000	Personal Auto Manual - Elimination of Rules 5.F. & 5.G.
February 1, 2000	Personal Auto Policy Program - Amendatory Endorsement Endorsement NC 00 15 (Ed. 8-99)

June 1, 2000

**Personal Auto Policy Program -
Amendatory Endorsement
Endorsement NC 00 12 (Ed. 10-99)**

July 1, 2000

**Personal Auto Manual Amendments -
Senate Bill 756 - Minimum Financial
Responsibility Limits**

Rate Revisions

The Twenty-Second Annual Report dated September 1, 1999 detailed developments to that date in connection with private passenger automobile insurance rate filings submitted by the Rate Bureau on February 1, 1994, May 1, 1995, April 1, 1996 and March 5, 1999.

Following lengthy negotiations, the Rate Bureau and the Commissioner of Insurance agreed to settle each of the outstanding rate cases. The 1994 and 1996 cases had been involved in litigation and in each case member companies had been advised by the Rate Bureau to establish escrow accounts because the Rate Bureau had instructed member companies to implement rates higher than those approved by the Commissioner of Insurance. The Commissioner signed a Settlement Agreement and Consent Order in connection with each of the contested rate cases on March 9, 2000.

Under the terms of the Settlement Agreement and Consent Order:

- An overall rate reduction of 8.5% was approved in connection with the 1994 rate case and member companies were required to issue refunds of premium and interest for each policy subject to the implemented rates. Instructions and procedures for processing premium refunds were approved by the Governing Committee and the Commissioner of Insurance and distributed to member companies on March 15, 2000.
- The rates implemented by the Rate Bureau in connection with the 1996 rate case were approved. All amounts subject to the escrow requirements which had been collected, including interest, were released to member insurance companies.
- An overall rate reduction of 9.25%, applicable to policies effective on or after September 1, 2000, was approved as a result of the 1999 filing.

Deviations

As of August 31, 2000, there were 195 member companies with approved rate deviations applicable to insurance for non-fleet private passenger automobiles, up from 190 one year ago. Eleven companies' deviations applied to physical damage coverages only, 175 companies' deviations applied to both the liability and physical damage coverages and 11 companies had a liability only deviation.

Appeals By Insureds

The Staff conducted 27 hearings during the year on appeals by insureds to the Rate Bureau under the provisions of G.S. 58-36-1(2). All cases involved disputed assignment of "points" under the Safe Driver Insurance Plan. Staff sustained the carrier's rating in 20 of the cases and ruled that the carrier had incorrectly interpreted the rules of the Safe Driver Insurance Plan in 7 cases.

Legislation

The 2000 Session of the General Assembly of North Carolina did not enact any legislation that affects automobile insurance coverages subject to the Rate Bureau's jurisdiction.

PROPERTY INSURANCE ACTIVITIES

The following property insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2000:

<u>Effective Date</u>	<u>Subject</u>
November 2, 1999	Homeowners Enhancement Policy Program - Specified Additional Amount of Insurance for Coverage A - Dwelling
February 1, 2000	Homeowners Policy Program - Multi-Line Discount Endorsement HO 32 45 10 99
March 1, 2000	Homeowners Policy Program - Special Provisions - North Carolina Endorsement HB 32 32 09 99
December 1, 2000	Homeowners Enhancement Policy Program - Special Provisions - North Carolina Endorsement HE 32 32 05 00

Deviations

The following table shows the number of member companies with approved deviations as of August 31 of the years indicated:

	<u>1999</u>	<u>2000</u>
Fire and Extended Coverage	78	83
Homeowners	206	210
Mobile Home Owner MH(C)	23	24
Mobile-Homeowners MH(F)	22	22

Legislation

The 2000 Session of the General Assembly of North Carolina enacted the following legislation that affects property insurance coverages subject to the Rate Bureau's jurisdiction:

- HB 1696 - Authorizes the Commissioner of Insurance to establish and modify public protection districts for all rural areas and cities with populations of 100,000 or fewer. This Bill became effective on its July 11, 2000 ratification date.

WORKERS COMPENSATION INSURANCE ACTIVITIES

The following workers compensation insurance filings submitted by the Rate Bureau were approved by the Commissioner of Insurance during the year ended August 31, 2000:

<u>Item</u>	<u>Subject</u>	<u>Effective Date</u>
U-1355	WCSP Pension Table Revisions	April 1, 2000
B-1359(NC)	Elimination or Enhancement of Selected Basic Manual Classifications and Basic Manual Classification Advisory Notes	April 1, 2000
B-1361	Basic Manual Updates of Selected Rules & References	April 1, 2000
B-1362	Code 5551 - Roofing - Amended Phraseology	July 1, 2000
B-1363	Air Carrier Classifications - Amended Phraseologies	July 1, 2000
B-1364	Basic Manual Rule IV - D.4.	July 1, 2000
B-1365	2000 Update to Retrospective Rating Plan Parameters	July 1, 2000
B-1366	Revisions to Admiralty and Federal Employers= Liability Act Classifications	July 1, 2000

Many endorsements, submitted by individual member insurance companies, were also filed by the Bureau and approved by the Commissioner.

Rate Revisions

(1) September 1, 1999 Loss Costs Filing

On September 1, 1999, the Rate Bureau submitted to the Commissioner of Insurance a filing that proposed an average loss costs increase of 3.4% for the industrial codes and an average pure premium decrease of 25.0% for the AF@ codes.

On October 18, 1999, the Commissioner of Insurance signed a Settlement Agreement and Consent Order which approved an average 0.0% change in the industrial codes loss costs. Prospective loss costs, rating values and miscellaneous values became effective April 1, 2000.

(2) September 1, 1999 Residual Market Rate Filing

On September 1, 1999, the Rate Bureau submitted to the Commissioner of Insurance a filing that proposed an average increase of 3.6% in the overall premium level of the workers compensation insurance residual market for the industrial codes and an overall premium decrease of 24.8% for the AF@ codes.

On October 18, 1999, the Commissioner of Insurance signed a Settlement Agreement and Consent Order which approved a premium level change of 0.0% for the industrial codes. Revised rates, rating values and miscellaneous values became effective April 1, 2000.

Appeals by Insureds

During the year covered by this Report there were no employer appeals heard by the Workers Compensation Committee.

Field and Office Service

The following summarizes the work of the two inspectors, as well as the rating and policy review activities of the Bureau

during the year covered by this Report and during the previous year:

	<u>Year Ended August 31</u>	
	<u>1999</u>	<u>2000</u>
Inspection Program:		
Inspection reports processed	649	665
Number in agreement with carriers' classifications	221	253
Number in disagreement with carriers' classifications	428	412
Rating:		
Intrastate experience ratings	37,320	31,892
Policy Review:		
Policies received	127,755	125,646
Endorsements received	100,458	98,787
Cancellations/Reinstatements	51,199	65,828

In accordance with previously established procedures, the Rate Bureau continued to update the coverage records of the North Carolina Industrial Commission upon receipt of policy information pages, renewal certificates, endorsements, cancellation notices and reinstatement notices. For many years coverage was updated via terminals directly on-line with the Industrial Commission database. During February, 2000, Spectrum, a customized software product designed to automate many of the activities of the Bureau, became operational. Currently, coverage information and updates are loaded into Spectrum and transmitted to the Industrial Commission via a nightly batch transaction.

Workers Compensation Insurance Plan

In accordance with the provisions of the North Carolina Workers Compensation Insurance Plan 12,756 risks were assigned by the Bureau during the year ended August 31, 2000. There were 6,416 new assignments, 6,317 renewals and 23 risks extended North Carolina coverage after having been assigned in another State. During the year ended August 31, 1999, the Bureau processed 14,971 new, renewal and supplementary assignments.

Legislation

The 2000 Session of the General Assembly of North Carolina did not enact any legislation that affects the workers compensation insurance activities of the Rate Bureau.

OPERATING EXPENSES

Following is a summary of the Rate Bureau's operating expenses paid during the twelve months ended August 31, 1999 and August 31, 2000:

	<u>1999</u>	<u>2000</u>
Salaries and Administration	\$1,779,945	\$1,852,682
Payroll Taxes	135,637	142,556
Rent	223,657	216,848
Travel	51,133	51,186
Postage	52,174	62,411
Software and Systems Maintenance	43,371	22,686

Printing and Office Supplies	55,676	56,954
Furniture and Equipment	126,442	107,870
Telephone	40,282	40,955
Group Insurance	233,137	266,075
Retirement Plan	115,634	98,704
Employees Savings Plan	70,233	65,689
Legal Expenses	693,795	635,542
Outside Services	4,188,962	4,648,208
Other Expenses	36,725	36,293
TOTAL	\$7,846,801	\$8,304,659

The 2000 expenses increased approximately 5.83% over the 1999 expenses.

CONCLUSION

We are most grateful for the helpful support of those who served during the year on the Rate Bureau's Committees and those who contributed to our work as members of the staffs of our advisory organizations and of the law firm of Young, Moore and Henderson. Working with these talented and dedicated people has been a real pleasure.

This is my last annual report as General Manager of the Rate Bureau, since I have decided to retire after serving more than 33 years on the staff of the Bureau and its predecessor organizations. Raymond F. Evans, Jr. will become General Manager effective November 1, 2000.

Respectfully submitted,

John W. Watkins

General Manager

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