NORTH CAROLINA DEPARTMENT OF INSURANCE

RALEIGH, NORTH CAROLINA

IN THE MATTER OF THE FILING	)	BEFORE THE COMMISSIONER
DATED FEBRUARY 1, 2008	)	OF INSURANCE
BY THE NORTH CAROLINA	)	
RATE BUREAU FOR REVISED AUTOMOBILE	)	
INSURANCE RATES – PRIVATE	)	Docket No. 1407
PASSENGER CARS AND MOTORCYCLES	)	

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ORDER

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THIS CAUSE was heard by the Honorable James E. Long, Commissioner of Insurance (hereinafter "Commissioner"), at a public hearing in Raleigh, North Carolina, beginning 30 June 2008 and concluding 29 July 2008. The public hearing was held pursuant to a Notice of Public Hearing (hereinafter "Notice") dated 6th March 2008 and subject to the provisions of Article 36 of Chapter 58 and Article 3A of Chapter 150B of the North Carolina General Statutes.

At the public hearing, the North Carolina Rate Bureau (hereinafter "Bureau") was represented by the firm of Young, Moore & Henderson through its attorneys R. Michael Strickland, Marvin M. Spivey, Jr. and Glenn C. Raynor. The North Carolina Department of Insurance (hereinafter "Department") was represented by its attorney, Sherri L. Hubbard.

BACKGROUND

Pursuant to Article 36 of Chapter 58 of the North Carolina General Statutes, the Bureau, on 01 February 2008, on behalf of its member companies, made a private passenger automobile (hereinafter "PPA") rate filing (hereinafter "the filing") seeking an overall rate increase of +13.0% for private passenger cars and an overall rate increase of +0.7% for motorcycle liability insurance (hereinafter "motorcycle"). The filed rate changes were to become effective on or after 01 October 2008.

Following the submission of the filing by the Bureau, and pursuant to Article 36 of Chapter 58 of the North Carolina General Statutes, the Commissioner issued the Notice (Docket No. 1407), on 6th March 2008 specifying in what respect and to what extent the filing failed to comply with the requirements of Article 36 and fixing a date for hearing. A copy of the Notice is attached hereto as *Exhibit 2* and incorporated herein by reference.

In accordance with the Notice, a Pre-Hearing Conference was held on 10 June 2008 wherein the parties stipulated to the expertise of the witnesses as follows:

1. Bureau witnesses Patrick B. Woods (hereinafter "Woods") and Michael J. Miller (hereinafter "Miller") are expert property/casualty insurance actuaries.
2. Bureau witnesses James H. Vander Weide (hereinafter "Vander Weide") and David Appel (hereinafter "Appel") are experts in economics and finance and profit with regards to the property/casualty insurance industry.
3. Department witnesses Allan I. Schwartz (hereinafter "Schwartz"), Mary Lou O'Neil (hereinafter "O'Neil"), and J. Robert Hunter (hereinafter "Hunter") are expert property/casualty insurance actuaries.
4. Department witness Stephen G. Hill (hereinafter "Hill") is an expert in rates of return for regulated industries.

In addition, it was noted at the Pre-Hearing Conference that the Department intended to subpoena the Director of the North Carolina Reinsurance Facility (hereinafter "NCRF"), Edith

Davis, as well as various Bureau committee members including Alan Bentley, Kate Terry, Amy Powell and Art Lyon.

All stipulations entered into at the Pre-Hearing Conference are set forth in the Pre-Hearing Order dated 10 June 2008[1], a copy of which is attached hereto as *Exhibit 3* and incorporated herein by reference.

A public hearing regarding the filing was held pursuant to the Notice. Both parties presented direct and rebuttal evidence, including the oral and written testimonies of the stipulated experts.

The testimony and exhibits at the hearing reflect the effective date of 01 October 2008 as proposed in the filing. However, 01 January 2009 is used as the basis for calculating the rates as set forth in this Order in *Exhibit 1*, a copy of which is attached hereto and incorporated herein by reference, because it was agreed at the conclusion of the hearing that the Bureau would require not less than 105 days from the date of the Commissioner's final order to implement new rates, which will become effective as set forth in this Order on 01 January, 2009.

SCOPE OF AUTHORITY

The office of Commissioner of Insurance is created by Article III, Section 7(1) of the North Carolina Constitution with the power and authority as delegated to and vested in the Commissioner by the General Assembly. The General Assembly granted to the Commissioner of Insurance the power to establish the appropriate rate levels for private passenger cars and motorcycle liability by the enactment of N.C. Gen. Stat. §58-36-70(d), set forth below in pertinent part:

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[1] The Pre-Hearing Conference was held on 10 June 2008 and the Commissioner and counsel for both parties signed the Pre-Hearing Order on that date. However, in the Pre-Hearing Order counsel inadvertently noted an incorrect date, 16 June 2008, as the date on which they consented to the Pre-Hearing Order.

> If the Commissioner finds that a filing complies with the provisions of this Article, either after the hearing or at any other time after the filing has been properly made, he may issue an order approving the filing. If the Commissioner after the hearing finds that the filing does not comply with the provisions of this Article, he may issue an order disapproving the filing, determining in what respect the filing is improper, and specifying the appropriate rate level or levels that may be used by the members of the Bureau instead of the rate level or levels proposed by the Bureau filing, unless there has not been data admitted into evidence in the hearing that is sufficiently credible for arriving at the appropriate rate level or levels. Any order issued after a hearing shall be issued within 45 days after the completion of the hearing. If no order is issued within 45 days after the completion of the hearing, the filing shall be deemed to be approved. The Commissioner may thereafter review any filing in the manner provided; but if so reviewed, no adjustment of any premium on any policy then in force may be ordered. The escrow provisions of N.C.G.S. §58-36-25(b) apply to any order of the Commissioner under this subsection.

The General Assembly has, therefore, clearly authorized the Commissioner to specify or to set "the appropriate rate level or levels" that may be used by the members of the Bureau instead of the rate level or levels proposed in the Bureau filing.

The factors considered in setting automobile insurance rates in this State are set forth in N.C. Gen. Stat. §58-36-10(2), which read as follows:

> Due consideration shall be given to actual loss and expense experience within this State for the most recent three-year period for which that information is available; to prospective loss and expense experience within this State; to the hazards of conflagration and catastrophe; to a reasonable margin for underwriting profit and to contingencies; to dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers; to investment income earned or realized by insurers from their unearned premium, loss, and loss expense reserve funds generated from business within this State; to past and prospective expenses specially applicable to this State; and to all other relevant factors within this State: Provided, however, that countrywide expense and loss experience and other countrywide data may be considered only where credible North Carolina experience or data is not available.

APPLICABLE NORTH CAROLINA LAW

The Commissioner is considered an expert in the field of insurance. *State ex rel. Comm'r of Ins. v. N.C. Automobile Rate Admin. Office, 292 N.C. 1, 21, 231 S.E.2d 867, 878 (1977); State ex* *rel. Comm'r of Ins. v. N.C. Rate Bureau, 124 N.C. App. 674, 687, 478 S.E.2d 794, 803 (1996).*

The burden of proof lies with the Bureau to show the reasonableness of a rate adjustment. *State ex rel. Comm'r of Ins. v. N.C. Rate Bureau, 300 N.C. 381, 453-455, 269 S.E.2d 547, 591-592 (1980); State ex rel. Comm'r of Ins. v. N.C. Rate Bureau, 75 N.C. App. 201, 208, 331 S.E.2d 124, 131 (1985).*

The Commissioner is not required to adopt the Bureau's ratemaking methodology. *N.C. Gen. Stat. §58-36-70(d).*

It is for the Commissioner in an adjudicatory proceeding to determine the weight and sufficiency of the evidence and the credibility of the witnesses, and he may accept or reject in whole or in part the testimony of any witnesses. *300 N.C. at 406, 269 S.E.2d at 565 (1980); State ex rel. Comm'r of Ins. v. N.C. Rate Bureau, 160 N.C. App. 416, 420, 586 S.E.2d 470, 474 (2003); 124 N.C. App. at 678, 478 S.E.2d at 797 (1996).* For example, the credibility and weight of the evidence projecting trends into the future are to be determined by the Commissioner. *In re Filing by Fire Ins. Rating Bureau, 275 N.C. 15, 36, 165 S.E.2d 207, 222 (1969).* Moreover, what constitutes a fair and reasonable profit "is a question of fact to be determined by the Commissioner upon evidence." *Id. at 39.*

A projection by the Commissioner of past experience and present conditions into the future is presumed to be correct and proper if supported by substantial evidence after taking into account all of the relevant factors required to be considered by statute. *275 N.C. at 35, 165 S.E.2d at 221 (1969); 292 N.C. at 21-22, 231 S.E.2d at 878 (1977).* "Substantial" evidence is defined as "such relevant evidence as a reasonable mind might accept as adequate to support a conclusion." It is "more than a scintilla or a permissible inference." *Comm'r of Ins. v. Automobile Rate Office, 287 N.C. 192, 205, 214 S.E.2d 98, 106 (1975)* (quoting *Utilities Commission v. Trucking Company, 223*

N.C. 687, 690, 28 S.E.2d 201, 203 (1943)); 160 N.C. App. 416, 420, 586 S.E.2d 470, 474 (2003); 124 N.C. App. 674, 678, 478 S.E.2d 794; 797 (1996).

"Any order or decision of the Commissioner, if supported by substantial evidence, shall be presumed to be correct and proper." *N.C. Gen. Stat. §58-2-80. (See also, State ex rel. Comm'r of Ins. v. N.C. Rate Bureau, 350 N.C. 539, 547, 516 S.E.2d 150, 155 (1999); 124 N.C. App. At 678, 478 S.E.2d at 797 (1996)).* On appeal, the order of the Commissioner "shall be prima facie correct." *N.C. Gen. Stat. §58-2-90(e).*

The "due consideration" required by N.C. Gen. Stat. §58-36-10 may be given by appropriate reflection of the factors in the ratemaking calculation, which factors can be expressed implicitly or explicitly therein. Due consideration may be given by the use of an explicit mathematical value or factor, which can be negative, positive or zero. The value used is determined by the relative merit, which is appropriate and fitting for the factor involved. However, "'due consideration' does not require that a numerical adjustment of the rates be made...." *350 N.C. at 546-547, 516 S.E.2d at 154-155 (1999).*

Due consideration may also be given by the use of an implicit factor, where appropriate and fitting to do so, such as providing for an adequate margin in the rate for dividends and deviations. Providing for an implicit factor can be a judgmental determination based upon observation. When due consideration is given by allowing an implicit margin in the rate, historical results demonstrating the existence of such a margin arising from the use of a given methodology, together with reasonably expected future results, may be relevant. Ultimately, the appropriate value – positive, negative, or no allowance at all – is judged by the Commissioner, in his discretion, in view of establishing a rate level that is not inadequate, excessive, or unfairly discriminatory. *350 N.C. at 546-547, 516 S.E.2d at 154-155 (1999); 75 N.C. App. 201, 224-226, 331 S.E.2d 124, 141 (1985).*

"Various standards exist for the making and use of insurance rates. In general, rates must not be excessive, inadequate, or unfairly discriminatory. Three basic principles of law pertain to the setting of insurance rates: (1) the Commissioner must set rates that will produce a fair and reasonable profit and no more; (2) what constitutes a fair and reasonable profit involves consideration of profits accepted by the investment market as reasonable in business ventures of comparable risk and (3) the underwriting business, which includes the collection and investment of premiums, is the only basis for calculating the profit provisions." *350 N.C. at 541, 516 S.E.2d at 151 (1999) (citations omitted).*

The Commissioner is not required to find each portion of the Bureau's filing improper before he can substitute his own ratemaking structure. Instead, the Commissioner, in order to use his own data or calculations, or to set rates, must only conclude that the Bureau's filing as a whole would result in excessive, inadequate or unfairly discriminatory rates. *160 N.C. App. 416, 433-434, 586 SE2d 470, 480 (2003).*

FINDINGS OF FACT

The Commissioner, sitting as hearing officer, received, read and heard the evidence of the Bureau and the Department, and based upon the record as a whole and all pertinent statutes and court decisions, the Commissioner makes the following Findings of Fact:

I. PRELIMINARY DISCUSSION

On 01 February 2008, the Bureau filed for an overall rate increase of +13.0% for private passenger cars and a rate increase of +0.7% for motorcycle liability. In support of its request for a rate change, the Bureau submitted with its filing the prefiled testimony of its experts, Woods, Miller, Vander Weide and Appel, as well as the testimony of Raymond F. Evans (hereinafter "Evans"), the General Manager of the Bureau.

On 4 June 2008, prior to the commencement of the hearing, the Department filed and served the prefiled testimonies of its own expert witnesses, Schwartz, O'Neil, Hill and Hunter. The Department's actuarial experts, Schwartz and O'Neil, reviewed and analyzed the filed rate indications and the supporting data; and, based upon the data and information contained in the filing and other sources, Schwartz and O'Neil made their own independent estimations of the needed rate level change. O'Neil's and Schwartz's overall rate recommendations ranged from –17.9% to –20.5%.

The hearing began on 30 June 2008. In addition to the direct written prefiled testimony and exhibits received by the Commissioner prior to the hearing, both parties presented oral testimony and written exhibits during the hearing. All witnesses were thoroughly cross-examined at the hearing by counsel.

The hearing lasted for twelve days until completed on 29 July 2008. During the hearing, the Commissioner heard evidence from fourteen witnesses and received thirty-four Department exhibits and fifty-two Bureau exhibits into evidence. The hearing produced 1,749 transcript pages.

Based upon a review of the filing and all written and oral evidence, the major differences between the parties are found in the following areas: experience database, profit, weight of the years of experience, trends, expenses, the impact of gas prices and dividends and deviations. [2]

A. <u>EXPERIENCE DATABASE</u>

Since the Bureau's inception, it's PPA filings have utilized the premium, loss, and expense experience of the drivers in the voluntary liability and standard physical damage market

[2] Subsequent to the completion of the hearing, counsel for the Department duly informed the Commissioner and opposing counsel by letter, dated 4 August 2008, that it was withdrawing the issue of agents' balances and prepaid expenses from consideration. A copy of the 4 August 2008 letter is attached hereto as Exhibit 4 and incorporated herein by reference.

(hereinafter "voluntary market") because this was the market for which the Bureau was setting rates. Beginning in 2005, the Bureau expanded the experience in its database to include the premium, loss, and experience of the entire North Carolina PPA market (hereinafter "total market"). It is this expanded total market database, which includes the experience of the voluntary market, the NCRF market (hereinafter "residual market") and the non-standard physical damage market (hereinafter "consent to rate market"), upon which the Bureau's current filed rate indications are based. The rates in the residual market and the consent-to-rate market are not regulated to the same extent as the rates in the voluntary market and they are not the rates that will be set in this proceeding. Moreover, according to statute and regulation, rates are made separately for these other market segments.

The Department witnesses, O'Neil and Schwartz, used the experience of the voluntary market to calculate their indicated rate changes. This is the experience that both the Bureau and the Department have relied upon for more than two decades because it is only the drivers written in the voluntary market who will be subject to the rates implemented by the Bureau as a result of this proceeding.

B. PROFIT

The issue of profit is twofold: 1) how much profit constitutes a fair and reasonable profit; and, 2) which profit methodology complies with both statutory requirements and appellate court decisions. The three Department experts used essentially the same rate of return methodology to calculate the return that the insurance companies should earn on the insurance business only. Conversely, by estimating the returns earned in other industries of comparable risk, the Bureau set a target rate of return that is equivalent to the return earned by the insurance company as a whole, which would include a return from underwriting and a return from all investments, including the return from the investment of capital and surplus. In North Carolina, there is no prescribed method for determining a fair and reasonable profit level; however, the experts in this case agreed that due to the unusual requirements in this State, the types of profit methodologies that can be used are limited to those that do not consider investment income from capital and surplus.

C. WEIGHT OF THE YEARS OF EXPERIENCE

N.C. Gen. Stat. §58-36-10(2) requires that due consideration be given "to actual loss and expense experience within this State for the most recent three-year period for which that information is available." The most recent three years of data available for this filing are for the years 2004-2006. However, because the latest year of data, 2006, generally had a sufficient number of claims to be assigned 100% credibility (using the Bureau's credibility criteria), the Bureau used only the 2006 data in the ratemaking calculations for all coverages except for the uninsured/underinsured motorists and motorcycle liability coverages. The data for 2004 and 2005, although included in the filing, was not actually used in the determination of the needed rate change except for the three aforementioned coverages

O'Neil, like the Bureau, also used the latest year of data for all coverages except for comprehensive, uninsured/underinsured motorists and motorcycle liability coverages and increased limits review. For the exceptions noticed, O'Neil used a premium weighted average of the three years, 2004-2006.

Department witness Schwartz calculated the rate level indication using an average of all three years of data because all three years, using the Bureau's credibility criteria, were 100% credible. Schwartz' use of three years of experience comports with the Commissioner's Orders in the 2001 and 2002 automobile rate cases.

D. TRENDS

Trending is the process by which actual losses and expenses are projected to future levels. The Bureau's Automobile Committee actually selected the trends used in the filing and the two Bureau expert witnesses, Woods and Miller, provided the justification in the filing for the selected trends. While both Department witnesses, Schwartz and O'Neil, accepted the Bureau's trend selection for the bodily injury coverage, uninsured motorist (basic limits and total limits) coverage, and the increased limits review, they individually took exception to certain of the Bureau's other trend selections. With the exceptions of the property damage, underinsured motorist, and the collision loss trends, there was generally a consensus among the witnesses as to the selection of the appropriate trend factors. With regards to the property damage, underinsured motorist, and collision loss trends there was disagreement between the Bureau and both Department witnesses.

E. EXPENSES

There was a disagreement this year over the expense levels in the Bureau's filing. The Bureau utilized all reported company expenses without adjustment despite the fact that the increase in expenses during 2006 were primarily due to the computer upgrade expenses for one large company. To adjust for the unusually high expense levels, O'Neil capped the expenses at an average level of the years 1999-2005, excluding the abnormal year of data for 2006. Schwartz made a 1% reduction to account for not only the unusual expenses of the one company in 2006, but, also for certain other expenses that Schwartz believed should not be charged back to the policyholders.

F. GAS PRICES

Department witnesses Schwartz and Hunter presented testimony that gas prices had been climbing steeply since the filing was actually made in February and that the rise in gas prices correlated to a drop in miles driven. Schwartz made a 2% reduction to losses for all coverages except comprehensive to account for the impact of gas prices. Hunter recommended that gas prices be considered in the selection of the loss trends. Neither O'Neil nor the Bureau made an explicit adjustment for gas prices; but, they opined that the rise in gas prices was a factor they had considered in trend selection.

G. DIVIDENDS AND DEVIATIONS

The due consideration given to dividends and deviations has long been an issue between the parties. In previous years, the Commissioner has ordered that no explicit factor for dividends and deviations should be included in the rate calculations because an average manual rate has within in it an implicit margin that can be used for dividends and deviations. The Department witnesses Schwartz and O'Neil this year calculated that margin within the average manual rate to be approximately 6.0% of premium (O'Neil: 6.06%; Schwartz: 6.14%).

Unlike in some previous years, the Bureau did not expressly identify a factor or calculation in the filing as a provision for dividends and deviations. Instead, the Bureau contended that it gave due consideration to dividends and deviations through its use of the expanded total market database, which was used to set an average manual rate based upon the experience of the entire PPA market in North Carolina. The Department witnesses argued that the use of the expanded database amounted to nothing more than an explicit factor in the rate calculations for dividends and deviations which is in violation of the Commissioner's previous orders. Thus, the dispute this year over dividends and deviations is intricately tied to the disagreement over the expanded database.

In addition to the seven major areas of contention noted above, there were a number of minor differences in the calculations of the witnesses. There was also one issue in contention at the hearing, agents' balances and prepaid expenses, that was specifically withdrawn from consideration by the Department due to insufficient evidence. As mentioned previously, the Department's notice of withdrawal of this issue, which was served concurrently on both the Bureau and the Commissioner, has been attached hereto as *Exhibit 4*.

II. JURISDICTION AND EVIDENCE

A. JURISDICTION

1. On 01 February 2008, the Bureau submitted the rate filing for PPA insurance, including all coverages for cars and the liability coverage for motorcycles. *RB-1 through RB-37.*

2. The filing requested an overall rate level increase of +13.0% for private passenger cars and an overall rate level increase of +0.7% for motorcycle liability. *RB-1, A-1.* Changing the effective date from 01 October 2008, per the filing, to 01 January 2009, per the Order, changes these requested increases to +12.9% and to +1.2%, respectively. *Rate Bureau Proposed Order, Exhibit 5, and DOI Proposed Order, Exhibit 6, attached hereto.*

3. On 6 March 2008, the Commissioner issued the Notice specifying in what respect the filing fails to comport with the applicable laws and setting the matter for a hearing to begin on 30 June 2008. *DOI-1; Exhibit 2, attached hereto.*

4. If implemented by the Bureau, the proposed +12.9% increase would cost the voluntary policyholders of North Carolina an additional $414 million in premium over the rates presently in effect as set forth in the rate manual, Exhibit RB-2. This is in contrast to the

Commissioner's ordered rate level change of –16.1%, which represents a savings to North Carolina consumers in the voluntary market of $517 million in premium from the current rates.

5. The Notice and the Pre-Hearing Order properly set forth the alleged deficiencies in the filing that would be at issue at the hearing and that would produce excessive and/or unfairly discriminatory rates if the filed rate levels were implemented by the Bureau. *Exhibit 2 and, Exhibit 3, attached hereto.*

6. A hearing was duly held beginning 30 June 2008, in accordance with the Notice and proceeded without undue delay to its conclusion on 29 July 2008. *T. pp. 4, 1749.*

7. Pursuant to Article 36 of Chapter 58 of the North Carolina General Statutes, the Commissioner has jurisdiction to hear the Bureau's request for an increase in PPA insurance rates, and, pursuant to N.C. Gen. Stat. § 58-36-70(d), has the authority to approve or to disapprove the filing, to determine in what respect, if any, the filing may be improper, and to specify the appropriate rates to be used by Bureau members. The Commissioner has issued a proper Notice and has held a hearing pursuant to the Notice. Therefore, as a result of the hearing and based upon the evidence discussed herein below, the Commissioner issues this Order setting forth the rates, which reflect the effective date of 01 January 2009. The rates hereby ordered are attached hereto as *Exhibit 1*.

B. EVIDENCE

8. The Bureau submitted the prefiled testimony of Evans to propound the filing. *RB-10, Evans Prefiled Testimony.* The Bureau also submitted the prefiled testimonies of four expert witnesses to support the filing. *RB-11, Woods Prefiled Testimony; RB-12, Miller Prefiled Testimony; RB-26, Vander Weide Prefiled Testimony; RB-32, Appel Prefiled Testimony.* Each Bureau witness had personal knowledge of his own analysis, was subjected to cross-examination

and attempted to explain his justification of the data, assumptions, methods and factors used by the Bureau in the filing.

9. The Department employed four expert witnesses to analyze various parts of the filing as to the appropriateness of the data and the material assumptions and methods underlying the Bureau's proposed rate level change. In addition, three of the expert witnesses performed his or her own independent analysis and made recommendations, where appropriate, as to alternative factors and methodologies to be considered by the Commissioner. *DOI-4, Schwartz Prefiled Testimony; DOI-5, O'Neil Prefiled Testimony; DOI-6, Hill Prefiled Testimony; DOI-7, Hunter Prefiled Testimony.* Each Department witness had personal knowledge of his/her own testimony, was subjected to cross-examination and attempted to explain the data, assumptions, methods and factors that he/she used in his/her own analysis.

10. The four Department experts were provided complete copies of the filing, as well as copies of various statutes, court decisions, and other materials, and were requested to analyze independently the filing in their areas of expertise and to make observations and to recommend changes, where necessary. *DOI-4, Schwartz Prefiled Testimony, p. 4; DOI-5, O'Neil Prefiled Testimony, p. 3; DOI-6, Hill Prefiled Testimony, p. 2; Hill T. p. 874; DOI-7, Hunter Prefiled Testimony, p. 13; Hunter T. pp. 958-960.*

11. In addition to the Bureau and Department witnesses who submitted prefiled testimony in this case, the Department subpoenaed four Bureau committee members, Art Lyon (hereinafter "Lyon"), Amy Powell (hereinafter "Powell"), Kate Terry (hereinafter "Terry"), Alan Bentley (hereinafter "Bentley") and the Director of the NCRF, Edith Davis (hereinafter "Davis"), to provide information on decisions made by the Bureau committees with regards to the filing

and to provide context to some of the testimony proffered by Bureau witnesses. *T. pp. 1034-1298.*

12. To properly analyze the filing, it was necessary for the Department experts to submit data requests and discovery requests to the Bureau in order to understand the assumptions and methods utilized by the Bureau in the filing. These data requests and discovery requests and the responses thereto were admitted into evidence as *Exhibits DOI-3 and DOI-19. T. pp. 316, 858.* The responses to the data and discovery requests, *Exhibits DOI-3 and DOI-19*, were necessary to further explain the data, material assumptions and methods adopted by the Bureau and to fully evaluate whether the filed rates were excessive, inadequate or unfairly discriminatory.

13. Prior to the hearing, the Department and the Bureau also stipulated to a contingency factor of 0% and the timing of a new effective date, if such a date were necessary. *DOI-2; Exhibit 3, attached hereto.*

14. The Bureau's Exhibits RB-1 through RB-52 and the Department's Exhibits DOI-1 through DOI-34, which include prefiled testimony together with direct and rebuttal evidence upon which both parties relied in support of their various contentions, were admitted into evidence. *T. pp. 6-7, 316, 319, 572, 605, 858, 863, 958, 1299, 1486-1487, 1597, 1624, 1713.*

15. At the hearing, the Commissioner took official notice of all prior workers' compensation and automobile rate orders for the years 1986-2006 and all appellate rulings arising out of those orders, and, those officially noticed documents were entered into evidence as RB-39. *T. p. 6.*

16. Taking into consideration the filing (RB-1 through RB-37), the data and discovery responses (DOI-3, DOI-19), the oral and written testimonies and exhibits of all Bureau and

Department witnesses, and the stipulations between the Department and the Bureau, the Commissioner makes the determination herein that the filing meets the minimum regulatory requirements for administrative review.

17. The Department experts provided the results of their analyses in their direct and rebuttal testimonies and exhibits, which are properly documented, and which demonstrate that certain of the Bureau's methods lead to excessive and unfairly discriminatory rates. *See DOI-4 to DOI-7; DOI-10 to DOI-18; DOI-24 to DOI-34.*

18. The Department experts produced material and substantial evidence sufficient to support the conclusions that the Bureau failed to adequately explain or legally support certain of its assumptions and methods and that the filed rate level change would lead to rates which are excessive and unfairly discriminatory. Moreover, the evidence that the Department experts presented demonstrates that the Bureau's profit methodology does not comport with North Carolina law. Furthermore, the evidence showed that current existing rates are excessive and that overall rate reductions are required.

19. Having judged the weight and sufficiency of the evidence and its compliance with North Carolina law and the credibility of the witnesses on the issues raised at the hearing, the Commissioner finds for the reasons set forth herein that the Bureau has failed to meet its burden of proof to warrant unconditional approval of the filing.

20. It is clear from the complexity of the issues that no individual witness for either the Department or the Bureau has presented a case for a rate level indication that can be accepted in its entirety without modification. The evidence in this case would permit a range of possibilities for a rate level change for private passenger cars from +13.0% to –20.5%, using various combinations of evidence as put forth by the witnesses.

21. Therefore, based upon the complete record, the Commissioner finds herein that it is appropriate to use a combination of Bureau and Department data and calculations and to adopt appropriate modifications to the Bureau filing to derive rates that are not excessive, inadequate or unfairly discriminatory.

22. The results of these Findings will be set out in such detail as required by statute and case law in the subsequent sections of the Order below.

III. <u>DATA QUALITY</u>

23. Bureau witness Woods testified that the ratemaking experience reflected in RB-1 is, in general, the data which has been supplied by the individual insurance companies to the statistical organizations and are consolidated into the appropriate format and detail for ratemaking. *RB-11, Woods Prefiled Testimony, p. 3.*

24. The Bureau offered testimony purporting to show that the data underlying the filing were reliable and accurate for ratemaking purposes. *RB-10, Evans Prefiled Testimony, p. 2; RB-11, Woods Prefiled Testimony, p. 3; RB-12, Miller Prefiled Testimony, pp. 4-9.*

25. Bureau witness Woods further testified that the data received from the companies is subject to various edits at the transactional level and is subject to distributional edits, which ensure that the distribution of the data is consistent with a company's prior submissions. The data are also balanced on a company-by-company basis to page 15 of the Annual Statement. After these checks and reviews have been made on a company basis, the aggregate data of all companies are reviewed for overall reasonableness. *RB-11, Woods Prefiled Testimony, p. 3.*

26. In addition, the Bureau requested that the statistical agents provide the companies that are on the Bureau's Automobile Committee with their own and the industry data distributions by class, territory, and deductible. These data were provided to company committee members so that the companies could individually verify that the data compiled by

the statistical agents accurately represented the company's writings in each of the last three years. *RB-11, Woods Prefiled Testimony, p. 3.*

27. The expense data in the filing are collected by the Bureau. The expense provisions are derived from the data produced pursuant to an annual request for data, the Special Call for Expense Experience (hereinafter "Expense Call"), issued by the Bureau. *RB-10, Evans Prefiled Testimony, p. 2; RB-12, Miller Prefiled Testimony, p. 6.* The Expense Call is submitted to all Bureau member companies and the responses received from the companies are compiled and checked by the Bureau and furnished to ISO[3] for incorporation into the filing. *RB-10, Evans Prefiled Testimony, p. 2.*

28. There were no specific concerns raised by the Department regarding data quality nor were there any data errors or irregularities identified by either the Department or the Bureau during the review of the filing or during the hearing,

29. Therefore, the Commissioner hereby finds, based upon the evidence in the record that the aggregate data included in this filing are of minimally sufficient quality to be used for ratemaking purposes.

IV. <u>RATEMAKING FORMULA</u>

30. Insurance ratemaking is prospective in nature, which means that rates are based on the expected value of future costs. Specifically in this filing, the proposed rates are based on the costs which are expected to be incurred on policies effective on or after October 1, 2008. *RB-12, Miller Prefiled Testimony, p. 10.*

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[3] Insurance Services Office ("ISO") is the statistical organization responsible for compiling and consolidating all of the company data and producing exhibits of the combined data in a format and detail necessary for ratemaking. ISO also provides consulting actuarial services to the Bureau. *RB-11, Woods Prefiled Testimony, p. 2.*

31. In North Carolina, the Loss Ratio Method (hereinafter "LRM") is the ratemaking model that has been traditionally used in PPA ratemaking. *RB-12, Miller Prefiled Testimony, p. 13; DOI-4, Schwartz Prefiled Testimony, p. 8.*

32. The LRM compares projected claim and expense amounts with current manual premium to estimate the prospective loss ratio for the prospective rating period. The prospective loss ratio is then compared to the target loss ratio calculated from the target losses, expenses, and underwriting profit provisions. The result is a rate level percentage change which is applied to current rates to derive the required revised rate for the prospective rating period. *DOI-4, Schwartz Prefiled Testimony, pp. 6-7; DOI-5, O'Neil Prefiled Testimony, p. 4.*

33. In basic terms, the LRM compares the losses for a period of time to the premiums for that same period of time. *Schwartz T. p. 520.*

34. The Bureau did not use the LRM to calculate the proposed rates in this filing. After more than two decades of using the LRM, the Bureau, in 2003, changed its ratemaking formula to the Pure Premium Method (hereinafter "PPM"). *RB-12, Miller Prefiled Testimony, p. 13; DOI-4, Schwartz Prefiled Testimony, p. 8.*

35. The PPM compares projected claim and expense amounts with current exposures to estimate the prospective pure premium, or loss cost per exposure, for the prospective rating period. The prospective pure premium is then loaded, or grossed up, to include target expenses and underwriting profit. *DOI-5, O'Neil Prefiled Testimony, p. 4.*

36. The PPM uses the cost provisions of a rate to build the indicated rate directly without reference to the current rates being charged. In other words, the indicated rate is the sum of a provision for claim losses, plus provisions for the various expense components, plus a provision for profit. *RB-12, Miller Prefiled Testimony, p. 13.*

37. The LRM uses the same cost provisions of a rate as are used in the PPM, but rather than calculating the indicated rate directly, the LRM relates the cost provisions to a rate base and produces an indicated percentage change in the rate base being tested. *RB-12, Miller Prefiled Testimony, p. 13.*

38. The PPM produces the indicated rate without reference to the current rate level or any rate level, whereas, the LRM derives the indicated rate by first calculating an indicated percentage change in the rate being tested. *RB-12, Miller Prefiled Testimony, pp. 13-14.*

39. All witnesses agree that the two ratemaking methodologies, the LRM and the PPM, are mathematically equivalent, and, if consistently applied, will yield the same result. *RB-12, Miller Prefiled Testimony, p. 14; Miller T. p. 239; DOI-4, Schwartz Prefiled Testimony, p. 9; Schwartz T. p. 376; DOI-5, O'Neil Prefiled Testimony, p. 4.*

40. There was a great deal of testimony over the reason why the Bureau changed ratemaking methodologies in 2003. Schwartz presented testimony that the purpose of the change was to hide a provision for deviations in the rate calculations. Schwartz testified that there was no other valid reason for the Bureau to change methodologies given that the LRM and PPM produce the same results. *DOI-4, Schwartz Prefiled Testimony, pp. 8-12; Schwartz T. pp. 528-529, 536-541.*

41. Miller testified that the reason the Bureau changed methodologies was to avoid a long-standing debate between the parties over what rate level should be tested using the LRM. *RB-12, Miller Prefiled Testimony, p. 14.*

42. Given that both methodologies, if applied consistently, produce the same indicated rate change, there really should be no issue as to which methodology is appropriate for ratemaking.

43. Therefore, given that all of the Bureau's filings prior to 2003 and all of the Commissioner's prior orders have utilized the LRM ratemaking methodology, and, given that the witnesses all agree that the LRM is an appropriate methodology to use, the Commissioner herein finds that the LRM is appropriate for use in determining an indicated rate change in this proceeding.

44. With the LRM, premiums at present manual rates should be used as the starting point of the calculations. The appropriate premiums at present manual rates appear in Exhibit 1, Section B, pp. 6-8, Line 1, for Bodily Injury (hereinafter "BI"); Exhibit 1, Section B, pp. 10-12, Line 1, for Property Damage (hereinafter "PD"); Exhibit 1, Section B, pp. 14-16, Line 1, for Medical Payments (hereinafter "MP)[4]; Exhibit 1, Section B, pp. 18-19, Lines 1-2, for Uninsured Motorists – Basic Limits (hereinafter "UM-B/L"); Exhibit 1, Section B, pp. 21-22, Lines 1-2, for Uninsured Motorists – Total Limits (hereinafter "UM-T/L"); Exhibit 1, Section B, pp. 28-29, Lines 1-2, for Underinsured Motorists (hereinafter "UIM"); Exhibit 1, Section B, pp. 35-37, Line 1, for Comprehensive (hereinafter "Comp"); Exhibit 1, Section B, pp. 39-41, Line 1, for Collision (hereinafter "Coll")[5]; Exhibit 1, Section B, pp. 53-54, Line 1, for Motorcycle.

[4] The BI, PD, and MP coverages are collectively known as the "liability coverages" hereinafter.
[5] The Comp and Coll coverages are collectively known as the "physical damage coverages" hereinafter.

V. REQUIREMENTS OF N.C. GEN. STAT. § 58-36-10

A. DUE CONSIDERATION OF ACTUAL LOSS AND EXPENSE EXPERIENCE WITHIN THIS STATE FOR THE MOST RECENT THREE YEAR PERIOD FOR WHICH SAID INFORMATION IS AVAILABLE

45. The LRM gives consideration to actual losses and expenses.

1. YEARS OF EXPERIENCE

46. The Bureau purported to give due consideration to the most recent three year period (2004-2006) for actual loss and expense experience by producing the indicated required premium per exposure for each of the three years, and then, based upon standard actuarial credibility considerations, calculating the anticipated rate level need based upon the data for the latest available year, which is 2006. *RB-11, Woods Prefiled Testimony, pp. 3-4; RB-12, Miller Prefiled Testimony, p. 18; RB-1, C-1 through C-12; RB-21.*

47. Although all three years were considered, the Bureau used only the latest year of experience, 2006, to calculate the anticipated rate levels for the BI, PD, MP, Comp and Coll. coverages. *RB-11, Woods Prefiled Testimony, p. 4; RB-12, Miller Prefiled Testimony, pp.19-20.*

48. The Bureau's decision to use only the latest year of data was based on standard actuarial credibility considerations and a balancing of stability and responsiveness. The credibility table included in the filing shows the number of claims necessary for assigning full credibility to a single year's database. *RB-11, Woods Prefiled Testimony, pp. 4, 6; RB-12, Miller Prefiled Testimony, pp. 19-20, 24, 26; RB-1, D-27.*

49. Credibility considerations enter into the PPA ratemaking formula in three areas, as described in RB-1, D-26. This section of the order specifically deals with the credibility considerations for the statewide rate indications in determining accident year weights applied to all coverages. *RB-1, D-26; RB-11, Woods Prefiled Testimony, p. 6.*

50. The credibility standards apply to the selection of the number of years of data for claim losses to be used as a base to which trends are applied and from which projected losses and, ultimately rates, are calculated. *RB-12, Miller Prefiled Testimony, p. 26.*

51. The credibility table at *RB-1, D-27* is a standard credibility table used by ISO on a countrywide basis. It is the same table used by the Bureau in past North Carolina filings. *RB-11, Woods Prefiled Testimony, p. 6; DOI-12, Miller Prefiled Testimony, p. 26.* The standard credibility criterion contained in the credibility table, RB-1, D-27, is the credibility criterion that is commonly used throughout the country by actuaries. *O'Neil T. p. 614.*

52. The credibility table at *RB-1, D-27* shows that if the average number of claims for the two latest accident years is 4,000 claims or greater, 100% credibility should be assigned to the latest year's (2006) data, with zero weight being assigned to data for the earlier years (2004, 2005). *RB-11, Woods Prefiled Testimony, p. 6.*

53. *RB-3* from the filing shows the average number of claims for accident years ended December 31, 2005 and December 31, 2006. It further shows that for the BI, PD, MP, Comp, Coll and UM coverages, the number of claims is far in excess of 4,000 claims, which is the standard for assigning full credibility to the latest year. *RB-11, Woods Prefiled Testimony, p. 7; RB-12, Miller Prefiled Testimony, p. 26.*

54. Based on the credibility considerations, the Bureau concludes that 100% credibility should be assigned to the actual loss and expense data for the year 2006 for the liability and physical damage coverages. *RB-11, Woods Prefiled Testimony, p. 4, 6; RB-12, Miller Prefiled Testimony, pp. 19-20.*

55. Department witness O'Neil like the Bureau, utilized the latest year (2006) of data because of standard credibility considerations for all of the aforementioned coverages except for

Comp. O'Neil found that that the wind and water procedure used in the filing did not fully correct the Comp data for fluctuations due to wind and water losses. As a result, she used a three-year premium weighted average rate level change for the Comp coverage. *DOI-5, O'Neil Prefiled Testimony, pp. 5-6.*

56. Department witness Schwartz took exception to the Bureau's use of only the latest year of data for the BI, PD, MP, Comp and Coll coverages. *DOI-4, Schwartz Prefiled Testimony, pp. 14-18.*

57. Schwartz opined that the use of three years of data will result in more stability in the rate level over time since it takes into account a more diverse and complete set of factors that impacts the experience that occurs. Schwartz further opined that the Bureau's exclusive use of one year of data will result in more instability and fluctuations in the rate level. Schwartz, therefore, recommended combining the rate level indications from the three years of available experience to derive the rate level changes by coverage. *DOI-4, Schwartz Prefiled Testimony, p. 14.*

58. Schwartz also testified that the 4,000 claims standard used by the Bureau takes into account only process variance and does not reflect parameter variance. Process variance assumes a fixed set of underlying circumstances that do not change over time. The process used to generate the losses is known with 100% certainty so that once a given number of claims is reached, 100% credibility can be assigned to the data because the underlying process used to generate claims is fixed. With parameter variance the underlying process used to generate claims is changing over time. Therefore, whatever the losses were in one year provides only limited information about the losses for the next year because the parameters of the loss generating process change over time. Because of that, simply adding more claims for a given

year does not reduce parameter variance because you are not obtaining additional information about other possible loss parameter distributions. *DOI-4, Schwartz Prefiled Testimony, pp. 14-15.*

59. With parameter variance, factors that can cause the loss generating process to vary from one year to the next are: (1) weather, (2) demographics, (3) economics, (4) legal environment, and (5) public attitudes. It is not an issue of how any one of these factors impacts the projected experience, but, rather, what the combination of all five factors will have on the projected experience. *DOI-4, Schwartz Prefiled Testimony, p.15; Schwartz T. p. 504.*

60. Department witness Schwartz and Bureau witness Miller each offered exhibits to support their positions as to the appropriate number of years of experience to use in the ratemaking process. *See DOI-4, Schwartz Prefiled Testimony, AIS-2, Sheets 11-16; RB-22.*

61. Miller analyzed the loss and expense data from the actual Bureau filings back to 1995 for the liability and physical damage coverages to show that a reliance on the pure premium for the latest year (2006) provided a more responsive and reliable prediction of the next year's pure premium than a reliance on either a three-year average or three-year weighted average. The one exception was for the Comp coverage which showed that reliance on the latest year was about equal to reliance on three years. *RB-12, Miller Prefiled Testimony, p. 21; RB-22; Miller T. pp. 242-250.*

62. Schwartz examined the results of projecting the future year combined ratio based upon either the prior year combined ratio or the average of the three-year combined ratio. The combined ratio reflects premiums, losses, loss adjustment expenses, fixed expenses and variable expenses, all of which are considered in the rate level calculation. Based upon the results of this analysis, Schwartz concluded that the three-year method tends to result in values at least as

accurate as the projections from the one year method. *DOI-4, Schwartz Prefiled Testimony, pp. 16-17, AIS-2, Sheets 11-13.*

63. Schwartz also performed an analysis to determine whether a one-year or a three-year database provides more stable results for losses and expenses. He examined the variability of the combined ratio for North Carolina PPA insurance for a one-year and a three-year experience period. Based upon the results of this analysis, Schwartz concluded that a three-year method tends to have more stable results than a one-year method. *DOI-4, Schwartz Prefiled Testimony, pp. 17-18, AIS-2, Sheets 14-16.*

64. There does not seem to be a dispute between the parties that using a one-year database is acceptable. Both the Bureau and Department witness O'Neil used one year for certain of the coverages and Schwartz testified that using one year falls within the range of actuarially accepted procedures. *RB-11, Woods Prefiled Testimony, pp. 3-4; RB-12, Miller Prefiled Testimony, p. 20; DOI-5, O'Neil Prefiled Testimony, pp. 5-6; Schwartz T. p. 512.*

65. However, Schwartz pointed out that given the statutory provision requiring consideration of three years and the evidence he presented in this case, the three-year database should be the "default procedure" that should be used unless circumstances warrant a different procedure. *Schwartz T. pp. 511-513.*

66. This is a persuasive argument given that O'Neil and the Bureau found reasons why the one-year method was inappropriate for certain of the coverages. Moreover, Miller admitted that the decision to use three years of data for UM was originally made for the 1995 filing, and, to his knowledge, no further analysis has been performed. So, there is some concern over how often the Bureau analyzes the coverages to determine whether one year or three years

of data is appropriate. *RB-11, Woods Prefiled Testimony, pp. 3-4; RB-12, Miller Prefiled Testimony, p. 26; Miller T. p. 253; DOI-5, O'Neil Prefiled Testimony, p. 6; Schwartz T. p. 510.*

67. Moreover, the Bureau did not rely on a single year of data for all coverages even where those coverages had sufficient claims to make the latest year 100% credible. The UM coverage had more than the required number of claims to be assigned full credibility; however, as noted above, the Bureau decided in 1995 that one year of data was inappropriate for this coverage.

68. For the UM, UIM, and motorcycle coverages, the Bureau used an average of three years data to derive the indicated rates. *RB-11, Woods Prefiled Testimony, p. 6; RB-12, Miller Prefiled Testimony, p. 26.* A three-year database is used for motorcycles because no claim count data by year is available, so the standard credibility table cannot be applied. In addition, the results by year for motorcycles can also be quite variable. A three year database is used for the UM and UIM coverages because the experience for the two coverages can be less stable. *RB-11, Woods Prefiled Testimony, pp. 6-7; DOI-12, Miller Prefiled Testimony, pp. 26-27.*

69. The Department witnesses do not contest the Bureau's use of a three-year database for the UM, UIM and motorcycle coverages.

70. Therefore, the Commissioner finds that, based on the evidence in this case, the use of a three-year average database of the actual loss and expense experience within this state for the liability, physical damage, UM, UIM, and motorcycle coverages is the appropriate way to give due consideration to the latest three-years of experience and is acceptable for developing the projected experience. The Commissioner further finds that using a three-year database of actual loss and expense experience within this state for the aforementioned coverages will produce rates that are not excessive, inadequate or unfairly discriminatory.

2. DATABASE

71. The Bureau calculated the indicated rates using the actual loss and expense experience of all drivers in North Carolina, including the experience of the drivers written in the voluntary market, the ceded drivers written in the residual market and those drivers whose physical damage coverage is written at consent-to-rate. *RB-11, Woods Prefiled Testimony, pp. 4-5; RB-12, Miller Prefiled Testimony, p. 28.*

72. This total market database was first introduced in the 2005 automobile rate filing. In the filings prior to 2005, the database the Bureau used included only the loss and expense experience of drivers in the voluntary market. *RB-11, Woods Prefiled Testimony, p. 4; RB-12, Miller Prefiled Testimony, p. 28.*

73. The Bureau contended that the reason for this change in database was that the database used in prior filings only captured the loss and expense experience of the "better" drivers in the State (where the Bureau defines "better" as those retained in the voluntary market). The Bureau determined that utilizing the loss and expense experience of the entire market was the best way to calculate a Bureau manual rate level that reflected the anticipated losses and expenses for the North Carolina average insured from all market segments, and, ensured that the Bureau manual rate became a "true average" for all PPA insureds in the State. *RB-11, Woods Prefiled Testimony, pp. 4-5; RB-12, Miler Prefiled Testimony, p. 29.* The Bureau's "true average" includes insureds from all market segments even when those rates are separately made based on statute or regulation.

74. The Bureau contended that if the Bureau's rates were based solely on the loss and expense experience of the voluntary market, premium revenues would not be sufficient to

provide for the losses and expenses of the entire market. *RB-12, Miller Prefiled Testimony, pp. 30-31.*

75. However, the actual expected future revenue for the total market (including actual premiums collected and clean-risk recoupments) is approximately 0.9% higher than it would be if total revenue were generated by charging the Bureau manual rate to every auto insured in the State. Since this "off-balance" of 0.9% was relatively close to zero, the Bureau decided not to adjust the calculation of the base rates to correct for the 0.9% overfunding of the total market caused by its ratemaking methodology. *RB-12, Miller Prefiled Testimony, pp. 57-58.*

76. The Bureau believes that the change in database that occurred in 2005 is a legal issue which results from the Bureau's reevaluation of the relevant ratemaking statutes prompted by the prior orders of the Commissioner indicating that the Bureau manual rate is an average rate. The Commissioner's discussions in his prior orders regarding the average manual rate lead the Bureau to review the statutes. Woods testified that in reviewing the statutes, the Bureau determined that it was not mandated that the Bureau promulgate rates for <u>voluntary</u> private passenger risks. Thus, the Bureau changed its database to promulgate rates for all private passenger risks. *RB-11, Woods T. pp. 133-138; Miller T. pp. 1461-1465.*

77. Miller opined that the goal of the Bureau is to promulgate rates that reflect the average loss and expense experience of all PPA drivers in North Carolina. As with any average, some insureds will pay more than the average and some will pay less than the average. Miller explained that the definition of the Bureau's goal is essentially a legal rather than an actuarial issue. However, Miller asserted that, if the courts decide that the Bureau's goal is to promulgate rates based upon the average loss and expense experience of all PPA drivers, then the question of which database achieves that goal is an actuarial issue. Miller testified that given the Bureau's

stated goal, as the Bureau currently interprets it, the correct database is the total market database. *RB-12, Miller Prefiled Testimony, pp. 30-31; Miller T. pp. 1457-1458.*

78. Miller testified that North Carolina has the largest residual market population in the nation which, he believed to be, primarily, a result of the lack of availability of adequate rates in the voluntary market. Utilizing voluntary market data only to establish the Bureau manual rate results in a lower manual rate, which results in more risks with loss and expense experience above the manual rate level that will be ceded to the residual market. However, Miller believes that establishing the Bureau manual rate using total market data will result in a higher manual rate which will mitigate the number of cessions to the residual market. *RB-12, Miller Prefiled Testimony, pp. 35-36.*

79. The Department witnesses Schwartz and O'Neil contested the Bureau's change to the total market database. For more than two decades since the Bureau's inception in 1977, the Bureau rate filings were based solely upon the experience of the voluntary market insureds who would be written at the Bureau manual rates. The Bureau's previous database did not include the experience of the drivers insured through the residual market or drivers whose physical damage coverage was written at consent-to-rate. *DOI-4, Schwartz Prefiled Testimony, p. 51.*

80. Department witnesses Schwartz and Hunter contended that there is no precedent for the change in database as neither of them were aware of any jurisdiction that includes residual market insureds in voluntary rate filings. *DOI-4, Schwartz Prefiled Testimony, pp. 51-52, Appendix AIS-14; DOI-7, Hunter Prefiled Testimony, pp. 51-52.*

81. The residual market insureds are not subject to the manual rates promulgated by the Bureau. The NCRF sets the rates for the other-than-clean risks through a separate rate filing based upon their own premium, loss and expense experience such that the other-than-clean risk

rates are actuarially sound and produce neither a profit nor loss. The NCRF also sets the rates for the clean risks; but, by statute, those rates must be set at a maximum level not to exceed the voluntary manual rate. Any loss resulting from the clean risks being charged the voluntary manual rate may be recouped so that the NCRF does not incur a loss on the clean risk business. *See N.C.G.S. §58-37-35(l); DOI-4, Schwartz Prefiled Testimony, p. 52; DOI-5, O'Neil Prefiled Testimony, pp. 50-51.*

82. Consent-to-rate business consists of insurance policies for physical damage with individually negotiated rates, which are higher than the Bureau manual rates. Neither the Bureau nor the NCRF sets the rates for consent-to-rate business; the insurance companies themselves negotiate the rates on these policies with the individual insureds based on regulation. *See N.C.G.S. §58-36-30(b); DOI-5, O'Neil Prefiled Testimony, pp. 51-52; DOI-7, Hunter Prefiled Testimony, pp. 51-52.*

83. The Department witnesses contended that the database used by the Bureau in this filing is not actuarially appropriate and results in a fundamental ratemaking error because there is a mismatch between the data underlying the Bureau's proposed voluntary manual rates and the appropriate voluntary manual rates applicable to the voluntary market insureds. *DOI-4, Schwartz Prefiled Testimony, p. 52; DOI-5, O'Neil Prefiled Testimony, p. 54; O'Neil T. pp. 743-744.*

84. The Department witnesses also contended that the Bureau's real purpose in using the total market database to set rates for the voluntary market was to include an explicit amount for deviations in the ratemaking process. *DOI-4, Schwartz Prefiled Testimony, p. 54; DOI-5, O'Neil Prefiled Testimony, p. 57; DOI-7, Hunter Prefiled Testimony, pp. 49-51.* This issue of

using the expanded total market database as a means to include an explicit provision for deviations in the ratemaking calculations is discussed more fully in Section V. E., below.

85. The Department witnesses also took exception to Miller's notion that the large size of the NCRF indicates some problem with the voluntary market that can be corrected by setting rates based on the total market database. Schwartz noted that the NCRF has published recent statements about the stability of NCRF operating results and the health of the North Carolina auto insurance market. Hunter noted that North Carolina enjoys a competitive market. O'Neil commented that there is no problem of either affordability or availability of insurance for the clean risk market in North Carolina. Miller, himself, testified that North Carolina is a good, competitive market that he recommends to his clients – he just believes that it is better that the risks be written in the voluntary market rather than the residual market. *DOI-4, Schwartz Prefiled Testimony, p. 53; DOI-5, O'Neil Prefiled Testimony, p. 76; DOI-7, Hunter Prefiled Testimony, pp. 19-21; Miller T. pp. 279-282.*

86. Both Schwartz and O'Neil used the premium, loss and expense experience of the voluntary market – the same database that was used by the Bureau for all filings prior to 2005. O'Neil and Schwartz believe that using the total market database in this proceeding, as the Bureau has done, will inflate the voluntary rate levels. They calculate the impact of the total market database on the voluntary rate level to be an overstatement of approximately 14% (13.8% per Schwartz; 14.4% per O'Neil). *DOI-4, Schwartz Prefiled Testimony, pp. 51-54; DOI-5, O'Neil Prefiled Testimony, pp. 53-55.*

87. Based on the evidence in this case, the Commissioner finds that the Bureau's use of a total market database is unwarranted. The voluntary market database utilized by the Department witnesses was used by the Bureau in all of its filings from the time the Bureau was

created in 1977 through the 2004 filing. This voluntary market database has been used in all of the Commissioner's Orders for the same time period; many of the Commissioner's Orders have been reviewed by the appellate courts. During this period that the voluntary market database has been used there has never been a question raised by the courts, the legislature, the Commissioner, the expert witnesses, or the Bureau itself as to the propriety of the database. Given the evidence in the record in this case, there doesn't appear to be a valid question raised now.

88. Thus, the Commissioner finds that the total market database will result in excessive rates for the voluntary market and that the appropriate database to use to determine the voluntary market rate level is the voluntary market database. This is the same database used by the Department witnesses in this case and by the Bureau in all filings prior to 2005.

89. Further, the Commissioner finds that the use of the voluntary database will result in rates that are not excessive, inadequate or unfairly discriminatory.

90. The disagreement between the parties regarding the database impacts a number of rate calculations for BI, PD, MP, Comp, Coll and Increased Limits Factors. As a result of the Commissioner's findings, adjustments will have to be made to the Bureau calculations in all of these coverages.

3. ACTUAL LOSSES AND LOSS DEVELOPMENT

91. The actual losses (historical) included in the filing, *RB-1*, are the combined losses of the voluntary, residual, and consent-to-rate markets. As discussed in Section V.A.2., the combined data the Bureau utilizes is inappropriate. Thus, the Commissioner will consider only the voluntary liability and standard physical damage losses herein.

92. The actual losses are included in the ratemaking calculation on an incurred basis. These actual incurred losses then become the base loss data that is ultimately "developed" and

trended forward to the prospective period in order to calculate the voluntary manual rates for the prospective period. *RB-11, Woods Prefiled Testimony, pp. 9-11; RB-12, Miller Prefiled Testimony, p. 41.*

93. The actual losses for the liability coverages (BI, PD and MP) are stated on an accident-year basis and include paid losses plus reserves for payments yet to be made on claims that were incurred during a specific accident-year. Losses stated on an accident-year basis typically change from the time an accident first occurs until the claim is finally settled. Thus, it is necessary to apply loss development factors to accident year data to derive a reasonable estimate of the total losses that will ultimately be incurred when all claims from a specific accident-year are finally settled. The incurred losses reported in the Bureau's calculations for liability coverages include allocated loss adjustment expenses (hereinafter "ALAE"), which relate to specific claims. *RB-11, Woods Prefiled Testimony, pp. 4, 9-10; RB-12, Miller Prefiled Testimony, pp. 41-42; RB-1, C-1.*

94. The actual losses (excluding excess wind and water losses) for the physical damage coverages (Comp and Coll) are stated on a calendar-year basis and include loss payments which transpired during the calendar year regardless of when the claim may have occurred. Losses stated on a calendar-year basis are reported on a paid basis and then adjusted to an incurred basis using the industry average ratio of incurred to paid losses, which is derived using Annual Statement data. For the physical damage coverages <u>all</u> loss adjustment expenses (hereinafter "LAE") are included on a calendar-year basis by means of a factor based on data reported to the Bureau through its annual Expense Call. *RB-11, Woods Prefiled Testimony, pp. 4, 22-24; RB-12, Miller Prefiled Testimony, pp. 41-42; RB-1, C-7; RB-7.*

95. The use of accident-year experience for the liability coverages and calendar-year experience for the physical damage coverages is common practice and is not disputed by the Department witnesses. *RB-11, Woods Prefiled Testimony, p. 4; RB-12, Miller Prefiled Testimony, p. 42.*

96. Pursuant to the Pre-Hearing Order, neither the loss development factors nor the paid to incurred factors were contested by the Department. *Exhibit 3, attached hereto.*

97. Therefore, the Commissioner finds that the Bureau's loss development factors (liability) and paid to incurred factors (physical damage) applied to the Commissioner's ordered undeveloped losses and loss adjustment expenses will produce a result in this case that is reasonable and will not result in rates that are excessive, inadequate or unfairly discriminatory.

98. The appropriate values for developed incurred losses are set forth by coverage and appear in Exhibit 1, Section B, pp. 6-8, Line 5 (BI); pp. 10-12, Line 5 (PD); pp. 14-16, Line 5 (MP); pp. 18-19, Line 13 (UM-B/L); pp. 21-22, Line 19 (UM-T/L); pp. 28-29, Line 8 (UIM); pp. 35-37, Line 11 (Comp); pp. 39-41, Line 11 (Coll).

4. ACTUAL EXPENSES

99. The actual expenses from the historical experience period are costs associated with the transfer of risk in the insurance transaction which are trended forward to the prospective period in order to calculate the rates to be charged for the prospective period.

a. Actual Loss Adjustment Expenses

100. The allocated loss adjustment expenses, which are those expenses related to a specific claim, are reported and included with accident-year loss data for the liability coverages. The unallocated loss adjustment expenses (hereinafter "ULAE"), which are expenses that cannot be identified to a specific claim, for the liability coverages are derived from the Bureau's

Expense Call. Since the Expense Call does not split out the data between the voluntary and residual markets, the Department witnesses applied the Bureau's total expense ratios to voluntary developed incurred losses to derive the ULAE. *RB-11, Woods Prefiled Testimony, p. 9; RB-12, Miller Prefiled Testimony, p. 42, 53; DOI-4, Schwartz Prefiled Testimony, AIS-2, Sheet 1, Line 6; DOI-5, O'Neil Prefiled Testimony, Exhibit 2, pp. 1-3, Line II.A.4.*

101. For the physical damage coverages, the total loss adjustment expenses, both allocated and unallocated, are derived from the Expense Call. Since the Expense Call has the expense data split between the standard and consent-to-rate markets, the Department witnesses used the ratios from the standard market and applied those ratios to the standard incurred losses for physical damage to derive the LAE. Also, an adjustment for excess wind and water is loaded into the incurred losses for physical damage comprehensive coverage. *RB-11, Woods Prefiled Testimony, p. 24; RB-12, Miller Prefiled Testimony, pp. 42, 53; DOI-4, Schwartz Prefiled Testimony, AIS-2, Sheet 1, Line 6; DOI-5, O'Neil Prefiled Testimony, Exhibit 2, pp. 1-3, Line II.A.4..*

102. For the UM coverage, the ALAE are reported and included with the accident-year losses. The ULAE are not separately identified for UM on the Bureau's Expense Call; therefore, as in prior filings, the Bureau has used the same ULAE factors as are used for the liability coverages. *RB-12, Miller Prefiled Testimony, p. 53.*

103. The values for loss adjustment expenses are set forth in Exhibit 1, Section B, pp. 6-8, Line 7 (BI); pp. 10-12, Line 7 (PD); pp. 14-16, Line 7 (MP); pp. 35-37, Line 13 (Comp); pp. 39-41, Line 13 (Coll).

b. Actual General and Other Acquisition Expenses

104. General and other acquisition expenses ("G&OA" hereinafter) are those underwriting expenses that are "fixed" in the sense that the expected year-to-year change does not vary directly with premium. For example, while the amount of commissions and premium taxes will rise or fall with the premium level, the fixed expenses (like salaries) do not vary directly in proportion to the premium level. *RB-11, Woods Prefiled Testimony, p. 12; RB-12, Miller Prefiled Testimony, p. 54.*

105. The actual G&OA expenses used by the Bureau are derived from the Bureau's Expense Call. The expense data derived from the Expense Call is total limits expense data which must be apportioned between the "basic limits" and "total limits" portions of the rate. *RB-11, Woods Prefiled Testimony, p. 12; RB-12, Miller Prefiled Testimony, p. 53; (See RB-1, H-539-H-541 and RB-4).* The expense data the Bureau used for the liability coverages was voluntary and ceded (residual market) combined. The expense data the Bureau used for the physical damage coverages was voluntary and consent-to-rate.

106. Both Schwartz and O'Neil contested the use of the combined voluntary and ceded expense data for liability, and, the combined voluntary and consent-to-rate data for physical damage as explained in more detail in Section V.A.2 herein. In addition, both Schwartz and O'Neil took exception to the amount of expenses that the Bureau included in the filing.

107. Schwartz provided a partial listing of the types of expenditures for which consumers should not be charged. The list includes: (1) expenses that exceed industry-wide values by an inappropriate amount; (2) lobbying expenses; (3) various advertising expenses; (4) damages against the insurer for bad faith; (5) damages against the insurer for fines or penalties or for violation of law; (6) legislative advocacy; (7) contributions to social, religious, political or

fraternal organizations; (8) fees and assessments to advisory organizations; (9) inappropriate transactions between affiliated companies, and (10) excessive executive compensation. *DOI-4, Schwartz Prefiled Testimony, p. 28; Schwartz T. pp. 460-471.*

108. Schwartz's concern over potential inappropriate expenses being passed through to the consumer was also echoed by Department witness Hunter. Moreover, Hunter noted that the major insurers in North Carolina do not seem to be making any significant efforts to hold costs down. *DOI-7, Hunter Prefiled Testimony, pp. 52-53.* Pursuant to 11 N.C.A.C. 10.1104(7)(c), the ten largest writers in North Carolina are required to submit statements regarding expense-cutting activities undertaken in the last 5 years. Those statements from the companies are to be included in the annual filings. A review of those statements in the current filing does not reveal any significant cost-cutting activities from any of the companies that responded. *See H-451 to H-465.*

109. O'Neil expressed a general concern that not all expenses should be passed through to the consumers. O'Neil also noted that the G&OA expenses had been creeping up over a period of eight years (1999-2006) without any explanation. *O'Neil T. pp. 630-633.*

110. Schwartz opined that it is a common practice for insurance regulatory agencies to disallow a portion of the G&OA expenses reported by insurance companies from being passed through to consumers. Schwartz noted that among the regulatory agencies that follow this practice are New Jersey, Texas, and California. *DOI-4, Schwartz Prefiled Testimony, p. 28; Schwartz T. pp. 461-463.*

111. Thus, Schwartz used his judgment based on his experience with regulatory agencies in other jurisdictions, to determine that a reasonable amount to estimate for inappropriate expenses is approximately 1.0% of premium. Schwartz, accordingly, made an

adjustment of -1.0% of premium to the expense data to account for inappropriate expenses. *DOI-4, Schwartz Prefiled Testimony, pp. 28, 30; Schwartz T. pp. 460-471.*

112. O'Neil also took exception to the amount the Bureau included for G&OA in the filing. O'Neil found that in addition to the gradual increase in the expense ratios over the last several years, there had been a significant increase in the G&OA ratio in the latest year, 2006. Underlying the increases in the ratios were significant increases in general expenses. *DOI-5, O'Neil Prefiled Testimony, p. 17; O'Neil T. p. 629.*

113. O'Neil was able to identify the cause of the increase in 2006 from the Bureau's response to a data request (see Exhibit DOI-3, DR-1, Item 88). The increase was predominantly due to systems improvements undertaken by one of the top ten writers, Nationwide, who identified itself in its cost-cutting letter submitted with the filing pursuant to 11 N.C.A.C. 10.1104(7)(c). *See RB-1, H-458 to H-459.*

114. O'Neil questioned whether the systems improvement for one company, which was large enough by itself to impact the expense levels in the filing, should be expensed and passed along to the consumers. She was particularly concerned given that no information was provided by the Bureau or the company as to whether the systems improvements would benefit North Carolina insureds; whether all lines of business or PPA insurance only would benefit; how the expenses were allocated by line and by State; and, why the systems improvements were being expensed at all and not being accounted for as capital improvements. *O'Neil T. pp. 633-644.*

115. Indeed, O'Neil's concerns over the lack of information on Nationwide's systems expenditures appear well-founded. Bureau witness Woods could add no additional information other than what Nationwide provided in its cost-cutting letter. Woods testified that the

Automobile Committee posed follow-up questions to the Nationwide representative on the Automobile Committee, although Woods couldn't recall who that representative was. *Woods T. pp. 194-196.*

116. The various Automobile and Governing Committee members who testified under subpoena could recall nothing of the conversations regarding Nationwide's expenses nor did they recall any follow-up requests for Nationwide to provide additional information. One of the witnesses questioned under subpoena who was unable to provide much information was Nationwide's representative on the Governing Committee. *Lyon T. pp. 1063-1071, 1140-1141; Powell T. pp. 1162-1166; Bentley T. pp. 1239-1240.*

117. Schwartz also made note of the high expenses in 2006 which were due primarily to Nationwide's systems improvement; and, he indicated that this was evidence that there were expenses included in the filing that exceeded industry-wide values by an inappropriate amount. *DOI-4, Schwartz Prefiled Testimony, p. 28.*

118. O'Neil's solution to the expense issue was to impose a maximum value or "cap" on the G&OA expense ratios equal to the average of those expenses for the historical years 1999-2005. O'Neil did not include the expense data from 2006 because she felt the 2006 expense levels were "astronomical" and that 2006 was an "outlier" in the series of expense data from 1999-2006. O'Neil calculated a maximum value for expenses of 14.5% for liability, 13.2% for standard physical damage and 13.0% for motorcycles. These maximum values replaced the values that the Bureau used for 2004 through 2006. *DOI-5, O'Neil Prefiled Testimony, pp. 18-19; O'Neil T. pp. 628-630.*

119. The issue surrounding G&OA expense levels has arisen in prior cases. Schwartz, in the 2002 case, raised the issue and recommended the 1% reduction that he recommends in this

case. However, the Commissioner noted in the 2002 case that because the Bureau's Expense Call did not require the companies to categorize their expenses in order to determine what types of expenses were being included in the aggregate data, there was insufficient evidence for the Commissioner to make a specific finding as to the existence of inappropriate expenses or as to the numerical value of such expenses. *See RB-39, 2002 Order, FF 43-45, 103-110.* The situation with the lack of sufficient data still exists with this filing despite the Commissioner's Order in 2002 that directed the Bureau to file a data quality report explaining how the Expense Call would be amended to obtain the necessary data on expenses. *RB-39, 2002 Order, FF 48.*

120. Moreover, neither the Bureau nor the companies seem inclined to provide specific expense information. When the Nationwide representative on the Governing Committee was questioned as to whether there were any types of expenses that Nationwide, as a matter of policy, did not pass along to consumers, the attorneys for both the Bureau and Nationwide objected on the grounds that the information constituted proprietary data. The Commissioner notes that when the objections were overruled, the witness responded that all expenses were passed along to consumers. *Powell T. pp. 1166-1167.*

121. Once again, without additional information as to the types of expenses that are included in the aggregate expense data utilized in the filing, the Commissioner is reluctant to accept Schwartz' 1.0% reduction, which is his best estimate based on very limited North Carolina information and his general knowledge of the industry.

122. O'Neil, however, presented a very acceptable methodology for computing the expense levels. Her utilization of a maximum average value is based upon her review of several years of Bureau data showing increasing expense levels, and, specifically, the large increase in

2006 due primarily to Nationwide's unexamined expenditures for systems improvement. *DOI-4, O'Neil Prefiled Testimony, pp. 18-19; O'Neil T. pp. 627-643.*

123. Miller took exception to O'Neil utilizing a seven-year average. He testified that if she were going to discard the 2006 value then it would have been logical to use the expense ratios that existed just prior to 2006, which would be the ratios for 2005 and 2004. *Miller T. pp. 1463-1484.* While this suggestion might have increased O'Neil's average expense ratio for the liability coverages, it would not have significantly changed the average expense ratio for the physical damage coverages and it, most likely, would have lowered the average expense ratio for motorcycles even further given that the expense ratio in 2004 for motorcycles was the second lowest ratio in the seven-year series. *See DOI-5, O'Neil Prefiled Testimony, Exhibit 12, pp. 1-3.* Moreover, using just the prior two-year expense ratios (2004-2005) does not address O'Neil's concerns over the continual rise in expense levels or the concerns regarding the expense data initially raised by Schwartz in 2002 and ignored by the Bureau in subsequent years.

124. The Commissioner finds herein that the Department witnesses have raised a number of valid concerns with regards to the expense levels utilized in the ratemaking calculation. While the Commissioner agrees that the companies should be allowed to recoup their expenses, blindly accepting the expense values reported by the companies can lead to abuse. Unfortunately, despite the Commissioner's directive in the 2002 case the Bureau has chosen not to provide any evidence that would assure the Commissioner that the expense levels in the filing are valid and will not lead to excessive rates.

125. Moreover, the expense levels reported for 2006 are unjustifiable. O'Neil even stated that, as a general matter, expenses for improvements to computer systems are appropriately considered when making rates. But, she testified that in this case the expenses

were extraordinary and no attempt was made to obtain any clarifying information. In fact, the minutes to the Bureau Automobile Committee meeting of December 6, 2007 made note of a discussion on the expense levels and Nationwide's increase in expenses, but, none of the minutes subsequent to that meeting indicate any further discussion or follow-up. *See RB-1, H-632.* The Bureau's Automobile Committee appears to have turned a blind eye to the expense levels in 2006 and obviously expects the Commissioner to do the same.

126. Based on the evidence in this case the Commissioner rejects the Bureau's filed expenses because those expenses:

a. include combined voluntary, ceded and non-standard physical damage data as more fully explained in Section V.A.2 herein;

b. include unexamined and extraordinarily high expenses in 2006 due to the expenditures of just one company; and,

c. show, for the liability coverages, a pattern of unexplained increasing expenses.

127. As a result of these problems, the Commissioner finds that the Bureau's G&OA expense factors of 16.9%, 15.3% and 15.3% for 2006, 2005 and 2004 liability coverages, 14.8%, 13.2%, and 13.7% for 2006, 2005, and 2004 physical damage coverages and 16.5%, 13.4% and 11.2% for the 2006, 2005, and 2004 motorcycle will result in excessive rates.

128. The Commissioner, instead, uses the methodology proposed by O'Neil that includes only voluntary market data and that utilizes a maximum seven-year average expense ratio of 14.5% for liability, 13.2% for physical damage and 13.0% for motorcycles for the years 2004-2006.

129. The Commissioner finds that O'Neil's methodology of calculating the expense levels will result in rates that are not excessive, inadequate or unfairly discriminatory. These expenses are set forth in *Exhibit 1, Section B, pp. 6-8, Line 8 (BI); pp. 10-12, Line 8 (PD); pp. 14-16, Line 8 (MP); pp. 35-37, Line 16 (Comp); pp. 39-41, Line 16 (Coll).*

B. DUE CONSIDERATION OF PROSPECTIVE LOSS AND EXPENSE EXPERIENCE WITHIN THIS STATE (TRENDS)

130. Prospective loss and expense experience is considered in the ratemaking process through the use of trend factors.

131. Trends are necessary because the experience used to evaluate the rates is historical experience. However, the rates that will be produced through the ratemaking process will be implemented in the future. *DOI-4, Schwartz Prefiled Testimony, p. 18.*

132. In other words, we are using historical experience from 2004-2006 to make rates for policies in existence during the period January 1, 2009 through December 31, 2009. The losses, for example, that occurred in 2006 are not expected to be the same as losses in 2008-2009 because of changes in accident frequency and claim costs. The historical losses, therefore, need to be trended to the anticipated levels for 2008-2009. *RB-11, Woods Prefiled Testimony, p. 13.*

133. The adjustment of historical losses to reflect the anticipated future cost levels is accomplished by the application of trend factors, which reflect the estimated annual change in both the frequency of claims and the average cost of claims. *RB-11, Woods Prefiled Testimony, p. 13; RB-12, Miller Prefiled Testimony, p. 45.*

134. The common analogy for trend is inflation because it measures the change in the cost of an item during a period of time. *DOI-4, Schwartz Prefiled Testimony, p. 18.*

135. However, inflation in the general economy has just one component – price per unit. Trending for insurance purposes has many components. The three main components of

trend are (i) claim severity (cost); (ii) claim frequency; and, (iii) exposure growth (premium trend for physical damage coverages). The first two components deal with losses, while the third component influences premium. *DOI-4, Schwartz Prefiled Testimony, p. 19.*

136. Actuaries measure trend by examining the historical movement of costs including claim severity (average claim cost) and claim frequency. The pure premium trend, which measures the amount of loss per insured car-year, is mathematically equivalent to the claim severity trend multiplied by claim frequency trend. *DOI-4, Schwartz Prefiled Testimony, pp. 19-20.*

137. To make trend selections, the witnesses relied upon a variety of data including internal trend data, Fast Track data, and various external (noninsurance) information including the Consumer Price Indices (hereinafter "CPI") for medical care, physician services and auto body work, as well as statistics regarding gas prices and miles driven. *RB-11, Woods Prefiled Testimony, p. 14; RB-12, Miller Prefiled Testimony, p. 49; DOI-4 Schwartz Prefiled Testimony, p. 21; DOI-5, O'Neil Prefiled Testimony, pp. 6-7.*

138. The primary source of data for trend analysis is the "internal" trend data collected by ISO. The internal trend data includes the cost and frequency data for all companies writing PPA insurance in North Carolina. The internal trend data was included in the filing at pages H-482 through H-516. Updated internal trend data (through September 2007) were provided in response to a data request, *DOI-3, DR1-70. RB-11, Woods Prefiled Testimony, pp. 13-14; RB-12, Miller Prefiled Testimony, p. 49; DOI-4, Schwartz Prefiled Testimony, p. 21; DOI-5, O'Neil Prefiled Testimony, pp. 6-7.*

139. A secondary source of data for trend analysis is the Fast Track data, which is collected through the Fast Track Data System under the auspices of the National Association of

Insurance Commissioners (hereinafter "NAIC"). The Fast Track data are published more quickly and provide more recent data. But, the Fast Track data do not include the data from all North Carolina insurers, nor is it subject to the same edit procedures as the internal trend data. Thus, the Fast Track data are less credible and reliable than the internal trend data. *RB-11, Woods Prefiled Testimony, p. 14; RB-12, Miller Prefiled Testimony, p. 49; DOI-4, Schwartz Prefiled Testimony, p. 21; DOI-5, O'Neil Prefiled Testimony, pp. 6-7.* Fast Track data also are not collected for the medical payments, uninsured motorists or underinsured motorists coverages. *DOI-4, Schwartz Prefiled Testimony, p. 21.*

140. While the Fast Track data may not be as reliable as internal trend data, it is more recent. The Bureau, at the time this filing was made, only had internal trend data and Fast Track data available through June 2007. At the time the Department witnesses filed their prefiled testimonies, one more quarter of internal trend data were available (through September 2007) and two more quarters of Fast Track data were available (through December 2007). *DOI-5, O'Neil Prefiled Testimony, pp. 6-7.*

141. Since the most relevant trend data, the internal trend data, are also the oldest, the experts had to strike a balance among the different sources of information to arrive at selected trends, which is consistent with the guidelines suggested in the Actuarial Standard of Practice No. 13, which is included in the filing as RB-15. *DOI-5, O'Neil Prefiled Testimony, p. 7.*

142. While more weight is generally given to indications derived from the internal trend data, it is an accepted actuarial procedure to consider both the internal trend data and the Fast Track data in analyzing trends. *DOI-4, Schwartz Prefiled Testimony, p. 21.*

143. With regards to the trend selections, the Department witnesses independently made their own trend selections and included their individual analyses in their prefiled

testimonies. *DOI-4, Schwartz Prefiled Testimony, pp. 18-32; DOI-5, O'Neil Prefiled Testimony, pp. 6-20.*

144. The Bureau's trend selections were made by the Automobile Committee. Bureau witnesses Woods and Miller did not make independent trend selections; instead, they offered justification for the Bureau's trend selections. *See, RB-11 Woods Prefiled Testimony, pp. 15-19; RB-12, Miller Prefiled Testimony, pp. 45-55.*

1. LOSS TRENDS

145. The Department witnesses both selected loss trends for the BI-Basic Limits ("B/L") and Total Limits ("T/L")) PD, MP, UM, UIM, Comp, and Coll coverages. Bureau witnesses Woods and Miller provided justifications for the Bureau's selection of the loss trend factors. *See DOI-4, Schwartz Prefiled Testimony, pp. 22-24; DOI-5, O'Neil Prefiled Testimony, pp. 8-16; RB-11, Woods Prefiled Testimony, pp. 15-17; RB-12, Miller Prefiled Testimony, pp. 45-51.*

146. The Bureau and the Department witnesses selected trend values for the loss experience in 2006, and, then calculated trend values for 2005 and 2004 based upon the selected 2006 values. However, the discussions in all of the testimonies with regards to the trend selection centered on the analysis of the selection for the latest year, 2006.

147. For the purposes of consistency, the discussion herein will also focus on the selection for the latest year, 2006. However, the trends ordered herein will include an order for trends for all three years for each coverage.

148. With regards to the loss trend selections for BI B/L and UM, both of the Department witnesses accepted the Bureau's selection of +0.8% for BI B/L (Pure Premium Trend), +5.0% for BI B/L (Severity Trend), and 0.0% for UM (Pure Premium Trend).

Therefore, given that there is no dispute between the parties, the Commissioner accepts the filed trends for BI B/L, and UM and finds that these trends will produce rates that are not excessive, inadequate or unfairly discriminatory. With regards to BI T/L severity trend, the Commissioner finds a +5.0% trend more reasonable than the Bureau's selection of +6.0% based on RB-1, H-483, which shows a 15-point trend indication of +4.6% and a 12-point trend indication of +5.1%.

149. With regards to the loss trend selections for the pure premium trends for the MP, UIM, and Comp coverages, both Department witnesses Schwartz and O'Neil presented evidence supporting lower trend selections than the Bureau's selections of -0.6% for MP, +7.0% for UIM, and -2.0% for Comp. As noted above, the Department witnesses had the benefit of more recent trend data than did the Bureau *(See DOI-3, DR1-70)*. As a result, the Department witnesses determined:

> (i) For the MP coverage the difference between the Department witnesses' and the Bureau's recommended pure premium trends is a result of the difference in the selection for claim severity. The Bureau's selected claim severity trend of +2.0% is outside the high end of the range of results using the historical internal trend data through September 2007. Both O'Neil and Schwartz selected a claim severity of +1.0%, which falls well within the indications (utilizing internal trend data through September 2007) over the latest 6 to 15 data points. *DOI-4, Schwartz Prefiled Testimony, pp. 22-25; DOI-5, O'Neil Prefiled Testimony, p. 10, Exhibit 7.*
>
> (ii) For the UIM coverage the Bureau selected a trend of +7.0%. Both of the Department witnesses took issue with the Bureau's selection because of certain

procedural problems. First, the Bureau's selection is heavily affected by the unusually large data point for 2006. Both Department witnesses made note of this. Schwartz calculated UIM trends both including and excluding this last data point. Second, Schwartz found that the Bureau did not take into consideration that the trend indications from the data provided were only 35% credible, according to the Bureau's own credibility table at RB-1, H-374. Schwartz also recommended that the best complement to credibility would be the BI or UM pure premium trends, which were +0.8% and +0.0%, respectively. Taking all this into account, Schwartz concluded that a trend of +2.0% for UIM pure premium would be within the range of acceptable values. *DOI-4, Schwartz Prefiled Testimony, pp. 24, 26-27; DOI-5, O'Neil Prefiled Testimony, pp. 13-14, Exhibit 7.*

(iii) For the Comp coverage, the difference between the Department witnesses' and the Bureau's recommended pure premium trends is a result of the difference in selection for claim frequency. Once again, the Department witnesses have the benefit of additional data (internal trend data through September 2007, Fast Track data through December 2007). The Bureau's claim frequency selection of -2.0% appears to be higher (less negative) than the trends indicated from the historical experience. Both Schwartz and O'Neil independently selected -5.0% for the claim frequency trend. *DOI-4, Schwartz Prefiled Testimony, pp. 23-25; DOI-5, O'Neil Prefiled Testimony, pp. 10-12, Exhibit 7; DOI-3, DR1-70.*

150. Given the analyses performed by Department witnesses, Schwartz and O'Neil, based upon additional data that was unavailable to the Bureau at the time of filing, the Commissioner finds that the evidence supports pure premium trend selections of -1.5%, +2.0%,

and -3.5% for the MP, UIM and Comp coverages respectively and that these trend selections will produce rates that are not excessive, inadequate or unfairly discriminatory.

151. With regards to the loss trend selections for PD and Coll, these are the only two loss trends where there wasn't any agreement between the Bureau or either of the Department witnesses.

(i) For PD, the Bureau selected a pure premium trend of +2.0%, while both of the Department witnesses selected trends of less than +1.0%. While the Department witnesses accepted the Bureau's claim severity trend, both witnesses took exception to the Bureau's claim frequency trend. Using more recent data than the Bureau, Schwartz selected a slightly more negative frequency trend of -2.5% than O'Neil's -2.0% selection. Schwartz's selection appears to place more emphasis on the earlier data points while O'Neil's selection reflects the recent observed reductions in the declining trend. Given the declining trends indicated by the more recent data points for claim frequency, (which the Bureau appears to rely upon heavily), the Commissioner accepts O'Neil's more moderate claim frequency selection which, when combined with the claim severity trend selected by all witnesses, results in a pure premium trend of +0.9% for PD. *DOI-4, Schwartz Prefiled Testimony, pp. 22, 24-25; DOI-5, O'Neil Prefiled Testimony, pp. 9-10.*

(ii) For the Coll coverage, the selections by the two Department witnesses and by the Bureau were varied. While the Department witnesses had additional data that the Bureau did not have at the time of filing, O'Neil's pure premium trend selection of +2.5% is much closer to the Bureau's selection of +3.0% than to Schwartz's selected trend of +0.5%. Given the disparity in the testimony and the fact that there does not appear to be a clear consensus in the analysis of the pure premium Coll trend, the Commissioner accepts the Bureau's selected trend of +3.0%.

152. Given the analyses performed by the witnesses, the Commissioner finds that the evidence supports the selection of O'Neil's pure premium PD trend of +0.9% and the Bureau's pure premium Coll trend of +3.0% and that these trends will produce rates that are not excessive, inadequate or unfairly discriminatory.

153. The trend selections of the Commissioner, Schwartz, O'Neil, and the Bureau are displayed in the table below:

PURE PREMIUM TREND SELECTIONS				
Coverage	Commissioner	Schwartz	O'Neil	Bureau
	2006/2005/2004	2006/2005/2004	2006/2005/2004	2006/2005/2004
BI-B/L	0.8%/1.0%/0.6%	0.8%/1.0%/0.6%	0.8%/1.0%/0.6%	0.8%/1.0%/0.6%
BI-B/L (Severity)	5.0%5.0%5.0%	5.0%5.0%5.0%	5.0%5.0%5.0%	5.0%5.0%5.0%
BI-T/L (Severity)	5.0%/5.0%/5.0%	6.0%/6.0%/6.0%	6.0%/6.0%/6.0%	6.0%/6.0%/6.0%
PD	0.9%/1.0%/0.8%	0.4%/0.9%0.5%	0.9%/1.0%0.8%	2.0%/2.1%/1.4%
MP	-1.5%/-1.6%/-2.2%	-1.5%/-1.6%/-2.2%	-1.5%/-1.6%/-2.2%	-0.6%/-0.9%/-1.7%
Comp	-3.5%/-3.9%/-5.5%	-5.0%/-5.1%/-6.5%	-5.0%/-5.1%/-6.5%	-2.0%/-2.8%/-4.7%
Coll	3.0%/3.0%/1.5%	0.5%/1.0%/0.0%	2.5%/2.6%/1.2%	3.0%/3.0%/1.5%
UM-B/L	0.0%/0.0%/0.0%	N/A	0.0%/0.0%/0.0%	0.0%/0.0%/0.0%
UM-T/L	0.0%/0.0%/0.0%	0.0%/0.0%/0.0%	0.0%/0.0%/0.0%	0.0%/0.0%/0.0%
UIM	2.0%/2.0%/2.0%	5.0%/5.0%/5.0%	5.0%/5.0%/5.0%	7.0%/7.0%/7.0%

154. Based upon the above analysis, the Commissioner selects loss trends for BI-B/L, BI-T/L, PD, MP, Comp, Coll, UM, and UIM as set forth in the column labeled "Commissioner" in the table above. These trends are posted in *Exhibit 1, Section B, pp. 6-8, Line 14 (BI); pp. 10-12, Line 14 (PD); pp. 14-16, Line 14 (MP); pp. 18-19, Line 14 (UM-B/L); pp. 43-44, Line 4 (BI-B/L-Severity); pp. 43-44, Line 11 (BI-T/L-Severity); pp. 21-22, Line 20 (UM-T/L); pp. 28-29, Line 9 (UIM); pp. 35-37, Line 17 (Comp); pp. 39-41, Line 17 (Coll).*

155. The Commissioner further finds that these loss trend selections will produce rates that are not excessive, inadequate or unfairly discriminatory.

2. PHYSICAL DAMAGE PREMIUM TRENDS

156. The rate level calculation for the physical damages coverages (Comp and Coll) is performed essentially in the same manner as the liability coverages with one difference. In the physical damage coverages, which are rated based on the model year of the vehicle and the symbol, the rate for vehicles increases as a new model year is introduced or a vehicle is assigned a higher symbol. Because of this, it is necessary to reflect the additional revenue that can be anticipated because of the prospective distribution of vehicles by model year and symbol. This has been accounted for by the model-year and symbol trend factors. *RB-11, Woods Prefiled Testimony, p. 25; RB-12, Miller Prefiled Testimony, pp. 38-40.*

157. The symbol and model-year premium trends are used to reduce the otherwise indicated Comp and Coll base rates so as to reflect the expectation that the average rates will increase automatically due to new cars being insured each year. The model-year trend recognizes the shift of insured cars to newer models while the symbol trend reflects the shift in insured cars to higher symbol categories. *RB-12, Miller Prefiled Testimony, pp. 38-40.*

158. The Bureau selected model-year trend factors of 1.114 for comp and 1.133 for Coll. Both Schwartz and O'Neil accepted the Bureau's model-year trend factors; therefore, the Commissioner finds it reasonable to adopt the Bureau's model-year trend factors as they are uncontested.

159. The Bureau selected symbol trends of +1.0% for Comp and +0.0 for Coll. O'Neil performed her own analysis and selected slightly higher trends of +1.5% for Comp and +1.0% for Coll because she felt the Bureau's selections were too conservative. Schwartz, however,

accepted the Bureau's symbol trend selections for both Comp and Coll. Thus, the Commissioner finds that given Schwartz's acceptance of the Bureau's symbol trends, the evidence supports the Bureau's selected symbol trends of +1.0% for Comp and +0.0% for Coll.

160. Based upon a majority consensus, the Commissioner finds it reasonable to adopt the Bureau's physical damage premium trends, which are posted in *Exhibit 1, Section B, pp. 35-37, Lines 2-3 (Comp); pp.39-41, Lines 2-3 (Coll).*

161. The Commissioner further finds that the use of the Bureau's physical damage premium trends will produce rates that are not excessive, inadequate or unfairly discriminatory.

3. EXPENSE TREND

162. Once the unallocated loss adjustment expenses and G&OA expenses are determined for the voluntary business, the expenses are trended so as to determine future expected expenses. *RB-11, Woods Prefiled Testimony, p. 17; RB-12, Miller Prefiled Testimony, p. 54.*

163. The expense trend is applied only to the ULAE and the G&OA expenses ("fixed" expenses) because these expenses are expected to change from year to year; but, the change will not necessarily be directly in proportion to the rate change or the change in losses or the change in premium. The trend factor applied to the G&OA and ULAE expenses reflects the expected annual change in these expenses. The fixed expenses are unlike the variable expenses (commissions, taxes, licenses and fees) or the allocated loss adjustment expenses. The variable expenses vary directly with premium and are expected to increase or decrease in proportion to the rate change for each coverage. Therefore, no trend factor is necessary for these expenses. The allocated loss adjustment expenses are directly related to losses and, therefore, it is more

appropriate to apply the loss trend to these expenses. *RB-11, Woods Prefiled Testimony, p. 17; RB-12, Miller Prefiled Testimony, pp.53-54.*

164. The average annual change in expenses (expense trend) utilized by the Bureau in this filing is based on an analysis of the latest average annual change in the All Items CPI and the Total Compensation Cost Index, both published by the Bureau of Labor Statistics. Based on an analysis of this data, the Bureau selected a factor of +3.8% for the expected change in G&OA and unallocated loss adjustment expenses. *RB-11, Woods Prefiled Testimony, p. 17; RB-12, Miller Prefiled Testimony, pp. 54-55.*

165. Department expert O'Neil performed her own expense trend analysis using essentially the same external data as the Bureau for her review. However, O'Neil's data were more recent than was available to the Bureau at the time of filing. Based upon her analysis, O'Neil accepted the Bureau's expense trend of +3.8%. *DOI-5, O'Neil Prefiled Testimony, p. 20.*

166. Schwartz also performed his own analysis but he used different external data than either O'Neil or the Bureau. Schwartz used actual countrywide insurance industry expense data for PPA over a 10 year period rather than the external general economic data relied upon by the Bureau and O'Neil. *DOI-4, Schwartz Prefiled Testimony, p. 31.*

167. Moreover, Schwartz opined that the external data used by the Bureau does not take into account increases in efficiency and the increased use of automation by the Property & Casualty (hereinafter "P&C") insurance industry. Schwartz considered both the actual historical trend of the P&C insurance industry for PPA and the increased efficiency and use of automation in his selection of an annual expense trend of +2.5%. *DOI-4, Schwartz Prefiled Testimony, p. 3.*

168. While Schwartz' evidence is compelling, given that O'Neil accepted the Bureau's +3.8% trend selection based upon her own analysis, the Commissioner also accepts the Bureau's +3.8% annual expense trend factor.

169. The Commissioner finds that the expense trend factor of +3.8% will produce rates that are not excessive, inadequate or unfairly discriminatory.

4. TREND SELECTIONS

170. The trend selection adopted by the Commissioner are set forth above in Section V.B.1. for losses, in Section V.B.2. for physical damage premium trends, and in Section V.B.3. for expenses and appear in *Exhibit 1, Section B, pp. 6-8, 10-13, and 14-16, Lines 13-17 for BI, PD and MP; Exhibit 1, Section B, pp. 18-19, Lines 14-15 for UM-B/L; Exhibit 1, Section B, pp. 21-22, Lines 20-21 for UM-T/L; Exhibit 1, Section B, pp. 28-29, Lines 9-10 for UIM; Exhibit 1, Section B. pp. 35-37 and 39-41, Lines 17-21 for Comp and Coll.*

171. The projected values are set forth below, by coverage, and appear in *Exhibit 1, Section B, pp. 6-8, 10-12 and 14-16, Lines 18-20 for BI, PD and MP; Exhibit 1, Section B, pp. 19-20, Line 16 for UM-B/L; Exhibit 1, Section B, pp. 21-22, Line 22 for UM-T/L; and Exhibit 1, Section B, pp. 35-37 and 39-41, Lines 22-24 for Comp and Coll..*

C. DUE CONSIDERATION OF THE HAZARDS OF CONFLAGRATION AND CATASTROPHE

172. Comprehensive coverage in automobile insurance are subject to catastrophic influences from wind and water; and, therefore, it is necessary to take a long-term look at the contribution to losses that are a function of wind and water or catastrophic occurrences. *RB-11, Woods Prefiled Testimony, p. 23.*

173. While the experience period underlying this filing (i.e. 2004-2006) was not affected by any catastrophe wind/water losses, the filing employs a catastrophe procedure to recognize that catastrophes tend to occur with relative frequency. Utilizing a one, two, or even three-year database would provide insufficient history to determine future catastrophes. The catastrophe procedure relies on a thirty-year experience period to determine expected future catastrophes. *RB-12, Miller Prefiled Testimony, p. 52.*

174. A catastrophe procedure which has been developed for use in automobile comprehensive physical damage insurance ratemaking is to spread out the excess portion of the loss over the time period by excluding the actual excess wind and water losses and then loading it back with a catastrophe factor, which is estimated from the data from a thirty-year period. This excess wind and water factor of 1.062 is multiplied with paid losses and the result is then multiplied with the paid to incurred factor to produce incurred losses for the Comp coverage. *RB-11, Woods Prefiled Testimony, pp. 22-23.*

175. The catastrophe procedure used in the filing is consistent with traditional actuarial procedures for PPA ratemaking and has been used in past Bureau filings. The calculation of the excess wind and water factor is shown on RB-1, D-13 of the filing. *RB-12, Miller Prefiled Testimony, p. 52.*

176. While the catastrophe procedure utilized by the Bureau is not contested by the Department witnesses, O'Neil testified that the procedure fails for the purposes of fully utilizing the data for trend analysis because the adjustment is insufficient. She, therefore, recommended that trend selections for the Comp coverage should be based on a longer interval of time to smooth aberrations in the data. As a result, she selected a -5.0% pure premium trend for Comp. A -3.5% Comp trend was adopted by the Commissioner herein in Section V.B.1.

177. As he has in prior orders, the Commissioner herein adopts the Bureau's catastrophe procedure and calculation of the excess wind and water factor as reasonable.

178. Continuing with the LRM calculation, incurred losses appropriately modified are to be trended in a manner consistent with the treatment of other prospective losses as described in this Order. Projected total losses and expenses are derived by adding trended incurred losses to trended expenses, as set forth in this Order.

179. The projected total loss and expense values (projected loss, LAE and G&OA) used by the LRM is set forth below, for all coverages, and appears in *Exhibit 1, Section B, pp. 6-8, 10-11 and 14-16, Line 21 for BI, PD, and MP; Exhibit 1, Section B, pp. 118-19, Line 16 for UM-B/L; Exhibit 1, Section B, pp. 21-22, Line 22 for UM-T/L; Exhibit 1, Section B, pp. 28-29, Line 11 for UIM; and Exhibit 1, Section B pp. 35-37 and 39-41, Line 25 for Comp and Coll.*

180. The projected total losses as derived by the steps above can now be divided by the appropriate premium at present manual rates. This produces the projected loss and expense ratios, by coverage, used in the LRM calculation. The results of this calculation are adopted as set forth below by coverage, and are found to be reasonable in light of all the evidence. These adopted results appear in *Exhibit 1, Section B, pp. 6-8, 10-11 and 14-16, Line 22 for BI, PD, and MP; Exhibit 1, Section B, pp. 118-19, Line 21 for UM-B/L; Exhibit 1, Section B, pp. 21-22, Line 27 for UM-T/L; Exhibit 1, Section B, pp. 28-29, Line 14 for UIM; and Exhibit 1, Section B pp. 35-37 and 39-41, Line 26 for Comp and Coll.*

181. These projected loss and expense ratios are found to be reasonable and will not result in rates that are excessive, inadequate or unfairly discriminatory.

182. Having now calculated the appropriate projected loss and expense ratios, it is next necessary to derive the permissible loss and expense ratios for use in the LRM calculation.

183. The permissible loss ratio represents the portion of the premium dollar available for losses (including allocated loss adjustment expenses) after the requirements for expenses, including a stated provision for underwriting profit and contingencies, are met. A permissible loss and expense ratio is a mathematical statement of those future results that are expected during the period for which new rates will be in effect.

D. DUE CONSIDERATION OF A REASONABLE MARGIN FOR UNDERWRITING PROFIT AND TO CONTINGENCIES

1. GENERAL

184. N.C. Gen. Stat. §58-36-10 requires that due consideration be given to a reasonable margin for underwriting profit and to contingencies.

185. The testimony regarding underwriting profit in this case is extensive and in order to make proper findings of fact, it is necessary to set out the relevant definitions and legal requirements.

186. Profit is a general description of the amount of money an insurance company earns after the payment of losses and expenses. *DOI-4, Schwartz Prefiled Testimony, p. 32; RB-32, Appel Prefiled Testimony, p. 10.*

187. Previous court decisions support the notion that premium is the appropriate basis for measuring a reasonable profit rather than capital. The Department witnesses calculated rates of return as a percent of premium, while the Bureau employed capital as the basis for measuring the profit. *DOI-4, Schwartz Prefiled Testimony, pp. 45-46, AIS-6, 7; DOI-5, O'Neil Prefiled Testimony, Exhibit 10, pp. 2-3; DOI-6, Hill Prefiled Testimony, pp. 5, 23.*

188. A rate of return is generally defined as a "return" divided by a base. The Department witnesses have used premiums as a base but one could also state the rate of return on surplus or equity. *Vander Weide T. pp. 1307-1308.*

189. A total return is the total profit that an insurance company earns from all business activities, including both the investment and the insurance activities. *DOI-4, Schwartz Prefiled Testimony, pp. 32-33; DOI-5, O'Neil Prefiled Testimony, p. 33; DOI-6, Hill Prefiled Testimony, p. 12; RB-32, Appel Prefiled Testimony, p. 32; Appel T. pp. 1359; Vander Weide T. p. 1307.*

190. The return on insurance operations is the profit that a company earns solely from its insurance business. The return on insurance operations is the sum of the underwriting profit and the investment income from reserves, as described below: *DOI-4, Schwartz Prefiled Testimony, pp. 33-34; DOI-6, Hill Prefiled Testimony, pp. 13-14; Vander Weide T. pp. 1306-1307; Appel T. p. 1359.*

a) The underwriting profit is one of a number of important components of the proposed rates. *RB-32, Appel Prefiled Testimony, p. 12.* Profit provisions are usually generated separately for the liability and physical damage coverages. *DOI-4, Schwartz Prefiled Testimony, pp. 34, 30; DOI-5, O'Neil Prefiled Testimony, p. 27; RB-32, Appel Prefiled Testimony, p. 12; RB-36, p. 1; RB-37, p. 1.* The underwriting profit provisions are used in the rate computations to calculate the expected permissible loss and expense ratio. *DOI-5, O'Neil Prefiled Testimony, p. 31 and See RB-1, C-1 (Line 23).*

b) Investment income from reserves is the income earned from investing the loss, loss expense reserves and unearned premium reserves. *DOI-4, Schwartz Prefiled Testimony, p. 34; DOI-5, O'Neil Prefiled Testimony, p. 24; DOI-6, Hill Prefiled*

Testimony, pp. 12, 14; RB-32, Appel Prefiled Testimony, pp. 10-11. (See Section V.F.). North Carolina law requires that insurance premiums reflect the income to be obtained from investing these reserves, which are also known as policyholder-supplied funds. *N.C. Gen. Stat. §58-36-10(2).*

191. Surplus represents owners' equity which is placed at risk in order to provide the opportunity for reward. *DOI-5, O'Neil Prefiled Testimony, p. 30 (citing Chapter 8, p. 115 of Actuarial Considerations Regarding Risk and Return in Property-Casualty Insurance Pricing).* In other words, surplus in the insurance industry is the owner-supplied funds which support the writing of insurance policies.

192. The insurance industry generates income from two sources: (1) the collection and investment of insurance premiums (the insurance operations); and (2) the investment of capital and surplus funds. *350 N.C. at 542, 516 S.E.2d at 151-152 (1999); 300 N.C. at 446, 269 S.E.2d at 587 (1980); DOI-6, Hill Prefiled Testimony, p. 12.* These two sources of income generate a total return or profit to the insurance industry. Because the return on operations constitutes the profit from the insurance activity only, it is a partial profit to the insurance industry; the remainder of the profit to the insurance industry comes from the investment income from capital and surplus.

193. The law requires that the underwriting profit consider the amount of business done rather than its capital. *350 N.C. at 544, 516 S.E.2d at 153 (1999); 300 N.C. at 444, 269 S.E.2d at 586 (1980).* Furthermore, "it has never been the law in this jurisdiction that income from invested capital is to be considered in an insurance ratemaking case." *300 N.C. at 444, 269 S.E.2d at 586 (1980).*

194. In addition, profit should be determined on the basis of a percentage of premiums rather than on the basis of a rate of return on invested capital. *In re Filing by Automobile Rate Office, 278 N.C. 302, 314-315, 180 S.E.2d 155, 164 (1971); State ex rel Comm'r v. State ex rel, Attorney General, 19 N.C. App. 263, 268, 198 S.E.2d 575, 580 (1973); 350 N.C. at 544, 516 S.E.2d at 153 (1999); DOI-4, Schwartz Prefiled Testimony, pp. 45-46.*

195. Thus, the law requires that profit be calculated solely on the insurance operations, not on the investment income from capital and surplus and that it be calculated as a percent of premium. *DOI-4, Schwartzl Prefiled Testimony, p. 37; DOI-5, O'Neil Prefiled Testimony, p. 33; DOI-6, Hill Prefiled Testimony, p. 8.*

196. In North Carolina there is no prescribed method for calculating profit. *350 N.C. at 542, 516 S.E.2d at 152 (1999); 300 N.C. at 449, 269 S.E.2d at 589 (1980).* However, insurers are entitled to a fair and reasonable profit, which "involves consideration of profits accepted by the investment market as reasonable in business ventures of comparable risk." *350 N.C. at 541, 516 S.E.2d at 151 (1999); 275 N.C. at 39, 165 S.E.2d at 224 (1969).*

197. The Commissioner's duty here is to determine a prospective profit for inclusion in the rates. *N.C. Gen. Stat. §58-36-10.* The calculation of profit is a complex procedure which requires the selection of a profit methodology and the consideration and calculation of many profit components. A selection of a particular methodology does not require the Commissioner to accept each and every component recommended by the proponent of that methodology. Each component must be given independent consideration. However, because many of the components are interrelated or are inherent in a particular methodology, a change to a given component or methodology may necessitate other changes in the profit calculation.

198. Each of the components, regardless of whether it is selected by an expert or the result of a calculation, is dependent upon the subjective analyses of the expert witnesses. Profit analysis is a subjective exercise by nature. A particular component selected by an expert is not necessarily wrong simply because the choice of the component is supported only by the expert's own judgment. This is particularly true in North Carolina where the ratemaking laws are unique and not necessarily applicable to other jurisdictions.

199. In this case, as in most cases, the experts disagree as to how the profit in North Carolina should be calculated. *DOI-4, Schwartz Prefiled Testimony; DOI-5, O'Neil Prefiled Testimony; DOI-6, Hill Prefiled Testimony; RB-26, Vander Weide Prefiled Testimony; RB-32, Appel Prefiled Testimony.* Thus, the Commissioner must determine which methodology and which components should be used based upon the weight and sufficiency of the evidence.

2. METHODOLOGY

200. Profit methodology has been a vigorously contested issue in ratemaking cases for decades. *(See DOI-32).* The primary reason for the enduring disagreement between the parties has to do with the legal requirements for calculating a fair and reasonable profit. While the courts have specifically held that there is no prescribed profit methodology is this state and that creativity is allowed, there is a legal prohibition against the consideration of investment income from capital and surplus. *See 350 N.C. 539 at 542, 544, 516 SE2d at 152, 155 (1999).* Thus, the parties have long been at odds over how to comply with the legal prohibition while also complying with the legal mandate that the profits from businesses of comparable risk must be considered in setting a fair and reasonable profit. *Id. at 541; 275 N.C. 15, 39, 165 S.E. 2d 207, 224 (1969).*

201. Most recently, there have been two filings, 1996 and 2001, which have resulted in appellate court decisions that have been heavily cited by the witnesses in this proceeding. The testimony in this case is quite similar to the testimonies in the prior two cases in that there are allegations by both parties that the legal requirements for calculating a profit in this state have been violated.

202. The preliminary issue in the calculation of profit is the selection of the appropriate rate of return methodology. A proper methodology: (1) identifies a target rate of return that satisfies the legal requirements in this State and is commensurate with the perceived risk of the automobile insurance market; and, (2) generates profit provisions that, when included in the rate computations, will result in rates that are not excessive, inadequate or unfairly discriminatory. Thus, risk, rate of return, and profit provisions will be discussed below in Sections V.D.2.a., V.D.2.b., and V.D.2.b.5.

a. Risk

203. In order to attract and retain capital, investors must be allowed the opportunity to earn a reasonable return for their financial commitment. The return allowed investors in a regulated industry is a return on investments commensurate with the returns from similar investments, while assuming no more and no less risk. *DOI-6, Hill Prefiled Testimony, pp. 7-8.* This ratemaking standard for regulated industries was enunciated in two U.S. Supreme Court decisions and the standard is applicable to ratemaking in North Carolina. *See Bluefield Water Works v. PSC, 262 U.S. 679 (1923) and FPC v. Hope Natural Gas Company, 320 U.S. 591 (1944). DOI-6, Hill Prefiled Testimony p. 6; Vander Weide T. p. 103.*

204. Returns are related to the risk of an investment such that investors would expect a greater return from an investment with more risk. *Vander Weide T. p. 109.*

205. Vander Weide testified that rational investors expect to receive comparable returns for comparable risks and if the returns are not equal, investors will reduce or completely eliminate their investments in activities yielding lower expected returns for a given level of risk and will increase their investments in activities yielding higher expected returns. *RB-26, Vander Weide Prefiled Testimony, p. 7.*

206. All witnesses based their rate of return analyses on the presumption that the P&C industry is of no more than average risk. *DOI-4, Schwartz Prefiled Testimony, pp. 39-43; RB-32, Appel Prefiled Testimony, pp. 4-5, 9.*

207. Bureau witness Appel proffered evidence (which was disputed) that due to non-diversifiable interest rate risk and the size distribution of insurers in North Carolina, an investment in the P&C industry is of above-average risk. *RB-32, Appel Prefiled Testimony, pp. 5-9.* However, Vander Weide's proposed target rate of return is based upon the assumption that the P&C industry is of average risk. *RB-32, Appel Prefiled Testimony, pp. 4-5, 9.* Moreover, Appel, even though he postulated that the P&C industry is of above-average risk, used Vander Weide's recommended rate of return against which to measure the statutory and total returns generated by the Bureau's selected profit provisions. *RB-28, Appel Prefiled Testimony, pp. 4, 13.* Therefore, Appel's testimony regarding the risk of the P&C industry is not persuasive in this case.

208. If the P&C industry is of average risk, there is evidence in this case that PPA insurance, in general, is of even lower risk than the P&C industry. *DOI-4, Schwartz Prefiled Testimony, pp. 41-42, AIS-11, Sheets 1-5; DOI-5, O'Neil Prefiled Testimony, pp. 28-29.*

209. There is also evidence that North Carolina PPA, in particular, is of even lower risk than countrywide PPA. Department witness Schwartz testified as to several qualitative

factors which support the conclusion that PPA insurance and North Carolina PPA insurance, in particular, is of lower risk than P&C insurance, including: (1) liability insurance is mandatory; (2) the limits of liability are relatively low; (3) there is no appreciable catastrophe hazard; (4) a large amount of data are available regarding the cost of the product; (5) an automatic inflationary exposure base is used which increases premiums for insurance companies even without an increase in rates; (6) insurance companies can cede business to the Reinsurance Facility; and, (7) insurance companies can consent to rate. *DOI-4, Schwartz Prefiled Testimony, p. 42.* Department witness O'Neil provided a similar list of factors, which supported the conclusion that North Carolina PPA insurance is of lower risk. *DOI-5, O'Neil Prefiled Testimony, pp. 28-29.*

210. Based upon the evidence in this case, the Commissioner finds that the P&C insurance industry, in general, and the North Carolina PPA insurance industry, in particular, are of no more than average risk. The Commissioner further finds that the selected target rate of return should reflect the no more than average risk for the North Carolina PPA insurance market.

b. Rate of Return Methodology

211. Having determined that North Carolina PPA insurance is of no more than average risk, the Commissioner must select a rate of return methodology that will generate the appropriate rate of return given the relevant level of risk. The selected methodology must also comply with the applicable legal requirements in this State.

212. Because North Carolina law is peculiar in that investment income on capital and surplus must not be considered when calculating profit, a number of widely accepted economic models may not be used for insurance ratemaking in this State. *DOI-6, Hill Prefiled Testimony,*

pp. 8-13. As a result, only two methodologies, comparable earnings and the market-based cost of equity capital, have been proffered by the witnesses in this case.

1) The Bureau's Methodology

213. Bureau witness Vander Weide's task in this proceeding was to make an independent appraisal of the aggregate cost of equity capital for companies writing PPA insurance in North Carolina. Based upon his analysis, Vander Weide recommended a fair rate of return on equity of 11.2% to 14.1%. *RB-26, Vander Weide Prefiled Testimony, pp. 4-6.*

214. Vander Weide's cost of capital analysis is essentially the same analysis he has provided in rate cases in North Carolina since 1991 and it is not materially different than the cost of capital analyses he has provided in other states. *Vander Weide T. pp. 96-97, 111.* Vander Weide calculates the cost of capital utilizing two different methods: the Discounted Cash Flow ("DCF" hereinafter) method and the risk premium method. *RB-26, Vander Weide Prefiled Testimony, p. 8.*

215. Vander Weide's DCF estimate included a comparison to three groups of companies: a) Value Line's group of P&C insurance companies; b) a subset of those companies that have a high percentage of revenues from PPA insurance; and, c) the Standard and Poor's 500 (hereinafter "S&P 500"). Vander Weide testified that he applied the DCF approach to the S&P 500 because it is a large group of companies that is typically viewed as being comparable in risk to the P&C industry, and, using a larger set of comparable risk companies should provide an accurate estimate of the cost of capital for North Carolina PPA insurers. Vander Weide's DCF analysis results in an estimate of the cost of equity capital in the range of 11.7% to 14.1%. *RB-26, Vander Weide Prefiled Testimony, pp. 12-13, 20.*

216. Vander Weide also employed a risk premium analysis to estimate the cost of capital. Vander Weide analyzed the historically achieved returns on the S&P 500 stock portfolio and on Moody's A-rated utility bonds going back to 1926. The difference between the stock and bond returns (the risk premium) is 5.1%, which is then added to the 6.1% expected long-term yield on A-rated utility bonds to achieve a return on equity of 11.2%. *RB-26, Vander Weide Prefiled Testimony, pp. 20-22.*

217. Vander Weide's DCF and risk premium analyses produced an estimate of the cost of equity capital in the range of 11.2% to 14.1%. *RB-26, Vander Weide Prefiled Testimony, p. 22.* This resulting range of 11.2% to 14.1% represents the Bureau's range for the target rate of return. *RB-26, Vander Weide Prefiled Testimony, p. 22; RB-32, Appel Prefiled Testimony, p. 4.*

218. The cost of capital is a market-based measurement of the rate of return expectation that is required in the marketplace on equity investments of comparable risk. The cost of capital has three components: (1) It is market-based in that it is based on market prices rather than book values; (2) It is an opportunity cost concept – it's the rate of return investors expect on other investments in other industries of similar risk; (3) It is a forward-looking concept in that it is the rate of return investors expect to earn in the market. *RB-26, Vander Weide Prefiled Testimony, pp. 5-6, Vander Weide T. pp. 1309-1310.*

219. Market-based methodologies like the cost of capital have become the primary determinant in the analyses of the rate of return to be allowed regulated industries and two of the Department witnesses testifying at hearing stated that they primarily rely on market-based methodologies in estimating rates of return in proceedings in other jurisdictions. *DOI-6, Hill Prefiled Testimony, pp. 9-10; Hill T. pp. 892-893; Schwartz T. p. 434.*

220. The Department witnesses criticized the mechanics of Vander Weide's calculations of the cost of capital; however, it is unnecessary to determine whether those criticisms have any merit because the Bureau's methodology must be rejected for other reasons discussed herein.

2) The Department's Criticisms of the Bureau's Methodology

221. While there does not seem to be any disagreement over the efficacy of Vander Weide's cost of capital analysis, the Department witnesses contested the use of this analysis as a means for setting an appropriate rate of return in these proceedings.

222. Market-based cost of capital methodologies estimate a return on a total company basis and measure the investors' required return for the entire firm, meaning all the operations within a company, rather than any one portion of the company. *DOI-6, Hill Prefiled Testimony, p. 11.*

223. The cost of capital and a total return measure essentially the same thing, which is a return on all of a company's assets including investment income from capital and surplus. *DOI-4, Schwartz Prefiled Testimony, p. 33.*

224. Information detailing the manner in which insurance companies make money is widely published and investors incorporate that information into the market prices they are willing to provide for those types of stocks. The available market data related to any publicly-traded insurance firm is the consideration of that firm's total return – the return from <u>all</u> aspects of the insurance business. *DOI-6, Hill Prefiled Testimony, p. 12.*

225. Vander Weide calculated his cost of capital using both a DCF and risk premium approach. The calculations required the inputs of various market data, including stock prices, projected earnings growth and bond returns. Market data includes information and estimates

related to a company as a whole and not just a portion of a company. *DOI-4, Schwartz Prefiled Testimony, pp. 38-39; DOI-6, Hill Prefiled Testimony, p. 12; RB-12, Vander Weide Prefiled Testimony, pp. 10, 21-22; Vander Weide T. pp. 98-101.*

226. All of the Department witnesses gave testimony as to why the cost of capital includes consideration of investment income from capital and surplus. *DOI-4, Schwartz Prefiled Testimony, pp. 33, 38-39; DOI-5, O'Neil Prefiled Testimony, pp. 33-34; DOI-6, Hill Prefiled Testimony, pp. 11-13.*

227. Bureau witness Vander Weide disagreed with the assertions of the Department witnesses that the cost of capital includes consideration of investment income from capital and surplus. Vander Weide testified that the cost of capital is the return that is expected in the market place and the return is based on market prices and dividends, which are unrelated to a source of funds. Vander Weide further asserted that whether the source of funds for that return is from policyholder-supplied funds or from a return on capital and surplus is totally irrelevant to the market rate of return and to the cost of capital. *Vander Weide, T. pp. 1310-1311.*

228. Investors expect that the company as a whole in which they invest will provide a return at least as large as they could expect to earn on other investments of comparable risk. It might be irrelevant to investors what source of funds will provide the expected return in the marketplace, but, it is very relevant to the calculation of a fair and reasonable underwriting profit in North Carolina.

229. Expecting a return to be earned by the whole company from all sources of funds means that the investors are looking for a return on <u>all</u> of a company's assets, or a "total return" as defined by the Department witnesses. Thus, as Schwartz, O'Neil, and Hill stated in their testimonies, the cost of capital measures a "total return," which, to an insurance company,

includes consideration of investment income from capital and surplus. *DOI-4, Schwartz Prefiled Testimony, p. 33; DOI-5, O'Neil Prefiled Testimony, p. 33; DOI-6, Hill Prefiled Testimony, pp. 11-13.*

230. Moreover, Vander Weide testified that he has provided cost of capital in this State since 1991 and that his testimony has been essentially the same throughout the years. Specifically, Vander Weide provided testimony in the 2001 case where the Commissioner rejected the cost of capital methodology because it produced a total return that included investment income from capital and surplus. *See RB-39,* Commissioner's 2001 Order, *FF 152-153, 156, 170.*

231. The appellate courts upheld the Commissioner's Order in the 2001 case. *State ex rel Comm'r of Ins. v. N.C. Rate Bureau, 160 N.C. App. 416, 586 S.E.2d 470 (2003); State ex rel Comm'r of Ins. v. N.C. Rate Bureau, 358 N.C. 539, 597 S.E.2d 128 (2004).* Counsel for the Bureau opined in his opening statement that the Court of Appeals "misunderstood" and reached an erroneous conclusion in upholding the Commissioner's ordered profit provisions. *See T. pp. 19-20.* That is an argument that counsel should save for the courts because the Commissioner is bound by the legal precedent set in 2001. The Commissioner must, therefore, again reject the Bureau's rate of return methodology because it violates the prohibition against consideration of investment income from capital and surplus.

3) The Department's Methodology

232. The Department witnesses all estimated a rate of return using a comparable earnings analysis. A comparable earnings analysis involves the review of historical returns of similar risk firms; and, provided those firms can be shown to be attracting capital and

maintaining financial health, the historical earnings experience of the comparable companies serves as a reasonable allowed return to the regulated firm. *DOI-6, Hill Prefiled Testimony, p. 9.*

233. The central issue in conducting a comparable earnings analysis is to utilize firms that are truly comparable to the firm or type of firm for which rates are being set. *DOI-6, Hill Prefiled Testimony, p. 13.*

234. A "total return," which would be the return earned on all the company's assets, is an inappropriate return because of the legal constrictions in this case. All of the Department witnesses selected comparable firms that allowed them to estimate the rate of return on only a segment of the insurance business, which is the return on insurance operations. *DOI-6, Hill Prefiled Testimony, p. 13.*

235. All Department witnesses utilized the (countrywide) P&C insurance industry as "firms of comparable risk" because they believed that the insurance operations of the North Carolina PPA market is most comparable to the insurance operations of the P&C industry countrywide. *DOI-4, Schwartz Prefiled Testimony, pp. 35-36; DOI-5, O'Neil Prefiled Testimony, pp. 30-31; DOI-6, Hill Prefiled Testimony, p. 13.*

(i) Schwartz used data from an insurance publication (Best's Aggregates & Averages) for the years 1983 through 2006 to calculate the twenty-four year average rate of return on insurance operations (as a percent of premium) of 4.1% for the P&C industry. However, to recognize the differences in the risk level between liability and physical damage, Schwartz used his actuarial judgment to select a higher return for liability of +4.5% and a lower return for physical damage of +3.5%. *DOI-4, Schwartz Prefiled Testimony, pp. 35-36, AIS-7, Sheet3.*

(ii) Hill used P&C industry information published in Best's Aggregates & Averages to determine the average underwriting profit for the most recent 25 years and to calculate the average investment income on policyholder supplied funds over the same time period. These two averages were then combined for each year resulting in the average return on operations for each year. Hill then determined what the average and median returns were over the 25-year period and over four sub-periods. He concluded that, historically, the P&C industry has earned a return on insurance operations of approximately +4.0% to +4.5% of premium. Acknowledging the difference in risk level between liability and physical damage coverage, Hill selected a range of return of +4.25% to +4.5% for liability and +4.0% to +4.25% for physical damage. Hill concluded that returns in this range would be reasonable for North Carolina PPA insurance. *DOI-6, Hill Prefiled Testimony, pp.13-17, SGH-1 Schedule 1, 2, 3 (pp. 1-2).*

(iii) O'Neil compiled historical data from two sources: (1) Best's Aggregates and Averages (for 1975-2005); and, (2) the 1994, 2004 and 2006 NAIC Profitability Studies (for 1985-2006). The Best's data produced an average pre-tax return on operations of 4.0%, while the NAIC data produced an average pre-tax return on operations of 4.6%. O'Neil then modified the historical results to recognize the decline in risk associated with the more narrow markets of PPA insurance countrywide and North Carolina PPA insurance. O'Neil also used her actuarial judgment to set the return on operations for the physical damage coverage at 0.5% less than the liability coverage to recognize the lower level of risk for the physical damage coverage. As a result of her consideration, O'Neil selected a 4.0% pretax rate of return on operations for liability and a +3.5% pretax rate of return on operations for physical damage. *DOI-5, O'Neil Prefiled Testimony, pp. 28-29, Exhibit 10, pp. 7-8.*

236. In essence, the Department witnesses independently calculated rates of return on insurance operations utilizing essentially the same body of data, which is the historical returns of the P&C insurance industry as a whole. The range of returns based on the calculations of the three witnesses is +4.0% to +4.5% for liability and +3.5% to +4.25% for physical damage.

4) The Bureau's Criticisms of the Department's Methodology

237. The Bureau's most significant criticisms of the comparable earnings analyses, which were proffered by the Department witnesses, appear to be theoretical rather that practical. In other words, while Bureau witness Appel offered a few criticisms of the mechanical computations proffered by the Department witnesses, both Appel and Vander Weide were very vocal in their denunciation of comparable earnings as a methodology to estimate the required rate of return.

238. Bureau witness Vander Weide testified that the comparable earnings methodology is neither widely accepted nor widely respected in the finance field. Vander Weide further testified that in the last thirty years he could recall only several instances where comparable earnings was used, and, in those several instances, it was used only as a secondary method. Vander Weide knew of no decisions by regulators that were based on comparable earnings analyses. *Vander Weide, T. pp. 1335-1336.*

239. Bureau witness Appel, echoing Vander Weide, testified that comparable earnings has largely been abandoned because a) it is a retrospective rather than prospective concept; b) the returns analyzed are book returns not market returns; c) it assumes that historical returns were adequate when they were earned; d) it assumes that the risk of the industry has not

changed from the historical period to the present; and, e) it embeds certain implicit assumptions that may result in returns that are not representative of what's required in the future. *Appel T. pp. 1346-1349.*

240. Bureau witness Appel introduced *RB-42* which purports to show that the risk of the P&C industry has increased over the period from 1978-2006. Appel opined that if the risk of the industry is greater today than it was in the past, the operating returns earned in the past would not be good evidence of what investors require in the future. *Appel T. pp. 1350-1353.*

241. Appel also challenged the testimonies of Department witnesses Schwartz and Hill who testified that historical operating returns were sufficient because capital did not leave the industry and that there was growth in the industry as evidenced by the growth in industry premium between 1983 and 2006. Appel opined that capital flows in the insurance industry are not a function of what took place in the past but of what is expected in the future and he discussed the substantial catastrophe losses associated with 2004 and 2005 that culminated in capital flows into the industry because of future expectations of profitability. *Appel T. pp. 1353-1355.*

242. Moreover, Appel asserted that the Department witnesses did consider investment income from capital and surplus. Appel introduced *RB-43* to demonstrate that there is a direct equivalence between "total return methodologies" and an "operating return methodology." Appel also argued that the failure of the Department witnesses to test their operating returns to see if they will generate a total return equal to the cost of capital was one of the significant problems in their testimonies. *Appel T. pp. 1363-1364, 1414-1425.*

243. In addition to the theoretical objections to the use of a comparable earnings methodology to estimate the rate of return on operations, Appel also criticized the Department

witnesses for their failure to state their recommended returns on an after-tax basis and he introduced *RB-44* through *RB-47* to show the results of the Department witnesses' calculations if those calculations had been computed on an after-tax basis.

244. Each of the Department witnesses provided testimony rebutting certain criticisms of the Bureau witnesses. *See T. pp. 1496-1713.*

245. Department witness Hill rebutted the testimony that the comparable earnings methodologies are not widely used or have been abandoned by introducing *DOI-30* which shows a survey of Utility Commissioners in the 1990's. The survey indicates that the comparable earnings methodology is the second most used methodology. Moreover, Hill testified that comparable earnings methodologies are older than market-based methodologies and they grew directly out of the *320 U.S. 591 (1944)* and *262 U.S. 679 (1923)* cases that set the standard for how regulated returns in the U.S. are determined. Market-based methodologies were not introduced into regulatory proceedings until the 1960's. Hill reiterated that market-based methodologies may have supplanted comparable earnings in popularity but that doesn't mean comparable earnings is not a legitimate methodology. *Hill T. pp. 1665-1669, 1677-1679.*

246. Hill also stated that there are flaws in a comparable earnings analysis like those enumerated by the Bureau witnesses; but, he also testified that market-based methodologies (like the Bureau's) are not infallibly accurate. Market-based methodologies are theoretical constructs that involve a number of complex assumptions in order to estimate investor expectations. Hill testified that there are many disagreements among practitioners over the various assumptions underlying market-based methodologies – for example, disagreements over the growth rate to use in a DCF analysis. So while comparable earnings methodologies may be flawed, market-based methodologies also suffer from flaws. *Hill T. pp. 1680-1682.*

247. With regards to the issue of historical vs. prospective rates of return and the criticism that historical rates embed certain assumptions that carryover into the future, Schwartz testified that he didn't rely on the historical data for one year or even a short period of time. He relied on the experience of over 1,000 insurance companies over a 20-year period. Based on the length and breadth of the experience, any random fluctuations in the data would tend to balance out. *Schwartz T. pp. 1504-1505.*

248. Moreover, regarding the Bureau's contention that anticipated economic conditions might require a different rate of return on operations than what had been achieved historically, Schwartz countered that the premise that the return on operations should be sensitive to economic conditions is false. Schwartz indicated that while the return changes overtime, it is not highly sensitive. He compares his return on operations to Vander Weide's risk premium calculation, which is also not highly sensitive to changing economic conditions. Schwartz postulated that the Bureau's confusion might be that the underwriting profit provisions can change significantly over time; but, that the change in profit provisions is a result of the changes in investment income from reserves and not a change in the rate of return. *Schwartz T. pp. 1506-1508.*

249. Schwartz also contested the Bureau's assertions that capital remaining in the industry is not indicative that historical returns were satisfactory. Schwartz testified that if investors didn't believe that the historical returns were a reasonable expectation of future results, then there would be no growth in the insurance industry. Schwartz challenged Appel's assertion that capital flowed into the industry after catastrophic losses in 2004 and 2005 because investors were expecting better things in subsequent years. Schwartz pointed out that *RB-42* (which Appel introduced), showed that 2004 and 2005 were some of the highest operating profits that the P&C

industry had seen in thirty years so that all Appel really proved is that capital flowed into the industry after profitable years. *Schwartz T. pp. 1508-1509; 1518-1520.*

250. Schwartz also contested Appel's testimony that the risk of the P&C industry has changed significally as indicated by *RB-42*. Schwartz testified that what Appel perceives as an increase in risk starting in 2001 is really reflective of the impact of the large 9/11/01 terrorism losses, which caused 2001 to be an unprofitable year. *Schwartz T. pp. 1513-1518, 1591-1592.*

251. With regards to Appel's assertions that post-tax returns are what should be used in calculating a rate of return, the Department witnesses cautioned that they were only looking at returns on insurance operations (which is only part of the insurance business) and the only published historical data that is available is on a pre-tax basis. *Hill T. pp. 1684; O'Neil T. pp. 1609-1610.*

252. There also seemed to be some confusion regarding Appel's after-tax calculations. Appel didn't show his calculations and the Department witnesses were unclear as to how he derived his figures. For example, Hill testified that he couldn't figure out Appel's tax rates as there were some changes in the corporate tax rate over time but not in the tax rate on investment gains. *Hill T. pp. 1684-1687; Schwartz T. p. 1523.*

253. With regards to Appel's assertions that there is a direct equivalence between "total return methodologies" and "operating return methodologies" purportedly indicating that the Department witnesses considered investment income on capital and surplus, *RB-43* purported to show that if the Department witnesses had looked at the historical total returns over a period of time and had backed out the historical returns on investment income from capital and surplus for the same period of time, they would have been able to calculate a return on operations like they calculated in the current case. *Appel T. pp. 1358-1364.*

254. The Department witnesses adequately addressed this contention in their prefiled testimonies. It is clear from these testimonies that the Department witnesses did not acknowledge or calculate either the investment income from capital and surplus or a total return. Bureau witness Appel even acknowledged the Department witnesses only looked at the return on operations. *Appel T. pp. 1361-1364; See also DOI-4, DOI-5 and DOD-6.*

255. All the witnesses acknowledged that there are two parts to the insurance business from which insurance companies earn money – the insurance business and the investment business. The courts have acknowledged this as well. What Appel has done is, basically, add the two parts of the insurance business together to get the total return of the entire P&C insurance industry. The courts have consistently ruled that this is inappropriate – the focus should be only on the returns earned by the one part of the industry, that is the insurance business. Moreover, this issue has already been addressed in the 2001 case where the Commissioner made voluminous findings that calculating a return on insurance operations from which to derive the underwriting profit provisions complies with North Carolina law. The Commissioner's order was upheld by the courts in the 2001 case.

256. Thus, the Commissioner herein finds that the comparable earnings methodologies used by Department witnesses Schwartz, Hill and O'Neil to calculate a rate of return on insurance operations as a percent of premium comply with the legal requirements of this state.

257. Moreover, the Commissioner finds that the methodologies of the three Department witnesses have been sufficiently documented and explained and produce comparable results such that any of the three methods can be used.

258. As a result, the Commissioner selects a +4.5% pre-tax rate of return for the liability coverage, as proffered by Department witness Schwartz. However, the Commissioner

notes that Schwartz judgmentally accorded a lower level of risk for the physical damage coverage than did O'Neil and Hill, who were in general agreement that the appropriate risk differential for physical damage is approximately 0.5% lower than liability. Based upon the risk differential recommended by O'Neil and Hill, the Commissioner selects a +4.0% pre-tax rate of return on physical damage, to account for the slight difference in risk between the liability and physical damage coverages.

Rate of Return on Insurance Operations		
	Liability	Physical Damage
Commissioner	4.5%	4.0%
Hill	4.25% - 4.5%	4.0% - 4.25%
O'Neil	4.0%	3.5%
Schwartz	4.5%	3.5%

See Exhibit 1, Section E, pp. 11 and 13, Line J.

259. The Commissioner finds that his pre-tax rate of return selections of +4.5% for liability and +4.0% for physical damage based upon a comparable earnings analysis comport with the legal requirements in this State, are consistent with the Commissioner's 2001 Order which was affirmed by the courts, and will result in rates that are not excessive, inadequate or unfairly discriminatory.

5) Underwriting Profit Provisions

260. After determining an appropriate rate of return that is commensurate with the average level of risk of the P&C industry, the Commissioner must generate underwriting profit provisions that will be input into the ratemaking calculations.

261. Of the four witnesses who provided rate of return estimates in this case, neither Department witness Hill nor Bureau witness Vander Weide calculated profit provisions. Their particular expertise is in the analysis of the rate of return.

262. The Bureau's underwriting profit analysis is really a combination of interrelated tasks performed by the Bureau Automobile Committee and Bureau witnesses, Vander Weide and Appel.

263. Vander Weide's task was to calculate the cost of capital, which the Bureau adopted as its target rate of return as described more fully in Section V.D.2.b.I above.

264. The Bureau Automobile Committee's task was to select the proposed underwriting profit provisions of +8.0% for liability and +11.0% for physical damage. The Automobile Committee made its selection after a review of the estimated returns on equity associated with alternative underwriting profits provisions, which are provided to the Automobile Committee by Appel. Appel testified that for each line of business he selected five or six values of underwriting profit provisions to test and those selected values comprise a range of two to three percentage points. The Automobile Committee then selected a provision within the range that was consistent with the cost of capital developed by Vander Weide. Appel testified that this selection method is perfectly appropriate and comports with Actuarial Standards of Practice #30. *RB-32, Appel Prefiled Testimony, pp. 12-13.*

265. Appel's task was to provide commentary on a number of issues and, ultimately, to test the total returns insurers would expect to earn given the Bureau's filed underwriting profit provisions. Appel tested the returns against Vander Weide's recommended range of total returns. *RB-28, Appel Prefiled Testimony, T pp. 511-513.*

266. The problem with the selection method employed by the Bureau Automobile Committee is that the selected underwriting profit provisions are consistent with the cost of capital, calculated by Vander Weide. As discussed previously in Section V.D.2.b. above, the Bureau employed the cost of capital methodology to estimate its rate of return on equity. The cost of capital is a "total return" methodology which takes into consideration investment income from capital and surplus.

267. The Commissioner is cognizant of the fact that the Bureau interprets the law to be that investment income from capital and surplus cannot be taken into consideration in calculating the underwriting profit provisions and that this prohibition does not apply to an estimate of their total rate of return. *See Hill T. p. 1702.*

268. However, the testing of the underwriting profit provisions using a target total rate of return, as Appel did here, is the same situation that resulted in the Supreme Court's remand of the Commissioner's 1996 Order. In that case, the underwriting profit provisions were calculated without the consideration of investment income on capital and surplus; but, the total rate of return resulting from the Commissioner's ordered underwriting profit provisions was then tested against a target rate of return that did consider the prohibited investment income. The Court in that case did not distinguish between the calculation of the provisions and the testing of those provisions. *(See RB-36, 1996 Order, p. 62, FF 235, 239, Footnote 4); 350 N.C. at 542-543, 516 S.E.2d at 152-153 (1999); State ex rel. Comm'r of Ins. v. N.C. Rate Bureau 129 N.C. App 662, 501 S.E.2d 681 (1998).* Thus, the courts' reasoning must also apply here to the Bureau's methodology.

269. Even if the Bureau's legal interpretation is correct, it is clear that the underwriting profit provisions were selected by the Automobile Committee after considering that the total

returns, including investment income from capital and surplus, produced by the underwriting profit provisions fell within the range of returns proposed by Vander Weide. That is how the Bureau determined that the underwriting profit provisions were not excessive or inadequate – by ensuring that the selected underwriting profit provisions produced total returns that fell within Vander Weide's total return range. *RB-12, Appel Prefiled Testimony, pp. 3-4 and 12-13; Lyon T. pp. 1131-1139.*

270. Moreover, the Bureau's legal interpretation of how the prohibition against consideration of investment income from capital and surplus is to be applied is incorrect. The Supreme Court has held that "it has never been the law in this jurisdiction that invested capital is to be considered in an insurance ratemaking case." That is a broad statement of the law that is not narrowly confined to the calculation of the underwriting profit provisions. *300 N.C. at 444, 269 S.E.2d at 586 (1980).*

271. Therefore, the Commissioner finds that the Bureau's selected profit provisions of +8.0% for liability and +11.0% for physical damage violate the legal prohibition that investment income from capital and surplus may not be considered in the ratemaking process and those underwriting profit provisions are rejected herein. This finding is consistent with not only the evidence in this case but also the findings in the Commissioner's Order in the 2001 case, which Order was upheld by the appellate courts. *RB-39, 2001 Order.* See also *160 N.C. App. 416, 586 S.E.2d 470 (2003) and 358 N.C. 539, 597 S.E.2d 128 (2004).*

272. Department witness Schwartz calculated his underwriting profit provisions in a very simple and straightforward manner. Basically, he started with the required rate of return on insurance operations (4.5% for liability and 3.5% for physical damage) and he then subtracted out the investment gain on reserves (policyholder-supplied funds) in order to derive his

underwriting profit provisions of -0.7% for liability and +1.4% for physical damage. *DOI-4, Schwartz Prefiled Testimony, pp. 43, AIS-6, Sheets 1-2.* This methodology is consistent is with the calculations he performed in the 2001 case and which was utilized by the Commissioner in his Order. *See RB-39, Commissioner's 2001 Order, FF228, 238-239, 277.*

273. O'Neil's calculation of the underwriting profit provisions is a little more complex than Schwartz's calculation. O'Neil used a cash flow model to derive her investment income from reserves. The cash flow model requires an estimate of the timing of income and outgo, which involves a number of inputs and assumptions. In the cash flow model used to derive the investment income from reserves, O'Neil set the pre-tax rate of return on insurance operations to the judgmentally selected values (4.0% for liability and 3.5% for physical damage) and the model then calculated the underwriting profit provisions of -0.39% for liability and +1.82% for physical damage. *DOI-6, O'Neil Prefiled Testimony, pp. 24-27, Exhibit 10, pp. 2-3.*

274. Schwartz and O'Neil's calculations produce the same theoretical results, that is determining the underwriting profit provisions by subtracting the investment income from reserves from the return on insurance operations. As discussed in Section V.D.2.b. above, the return on operations is the appropriate return to use for the calculation of the underwriting profit in North Carolina.

275. However, because the calculations made by Schwartz and O'Neil of the investment income from reserves requires some necessary modifications, the Commissioner cannot fully adopt the underwriting profit provisions of either witness. Instead, using Schwartz' more straightforward calculations with appropriate modifications, discussed more fully in Section IV.F. below, the Commissioner herein finds that the underwriting profit provisions of

-0.5% for liability and +2.1% for physical damage are appropriate, supported by evidence in this case, and will result in rates that are neither excessive, inadequate or unfairly discriminatory.

c. Contingencies

276. Contingencies are a recognized component of ratemaking and N.C. Gen. Stat. §58-36-10(2) requires that due consideration be given to "a reasonable margin for underwriting profit and to contingencies."

277. Department witness O'Neil disputed the necessity of including an additional contingency loading in the profit estimate because she had already recognized the risk differential between liability and physical damage in selecting her rates of return on insurance operations. *DOI-5, O'Neil Prefiled Testimony, pp. 36-37.*

278. However, the Commissioner need not address O'Neil's concerns in this Order because the parties stipulated at the Pre-Hearing Conference that the contingency factor will be 0.0% and that "there is no agreement between the parties as to how the factor is calculated or whether such a factor should exist at all." *Exhibit 3, attached hereto.*

279. Therefore, without finding whether the contingency factor is appropriate and whether an explicit factor should be included in the rates, the Commissioner adopts the stipulated 0.0% factor to be used in this case and finds that a 0.0% contingency factor will lead to rates that are not excessive, inadequate or unfairly discriminatory.

d. Summary

280. Based on all of the components discussed *supra,* and the discussion of the investment income from reserves discussed in Section V.F below, the underwriting profit and contingency provisions calculated by the various witnesses and selected by the Commissioner are displayed below:

UNDERWRITING PROFIT AND CONTINGENCY FACTORS		
	LIABILITY	PHYSICAL DAMAGE
Commissioner	-0.5%	+2.1%
Schwartz	-0.7%	+1.4%
O'Neil	-0.39%	+1.82%
Bureau	+8.0%	+11.0%

281. The Commissioner, therefore, finds that underwriting profit and contingencies factors of -0.5% for liability and +2.1% for physical damage are appropriate and supported by the evidence. The Commissioner's calculation of these provisions is displayed in *Exhibit 1, Section C, pp. 11, 13.*

282. Related profit issues are discussed in more detail in Section V.F. below.

283. Based on all of the evidence, the Commissioner estimates underwriting profit provisions of -0.5% for liability and +2.1% for physical damage, and finds these underwriting profit provisions to be fair and reasonable. The Commissioner finds that these provisions will lead to rates which are not excessive, inadequate, or unfairly discriminatory.

E. DUE CONSIDERATION OF DIVIDENDS, SAVINGS, OR UNABSORBED PREMIUM DEPOSITS ALLOWED OR RETURNED BY INSURERS TO THEIR POLICYHOLDERS, MEMBERS, OR SUBSCRIBERS

284. No facts regarding unabsorbed premium deposits were put into evidence and, consequently, unabsorbed premium deposits are not an issue in this case. *Exhibit 3, attached hereto.*

285. Policyholder dividends are, basically, a return by the insurance company of premium to the policyholders. *RB-12, Miller Prefiled Testimony, p. 59.* Policyholder dividends

and stockholder dividends are effectively the same. *DOI-5, O'Neil Prefiled Testimony, pp. 38-39; O'Neil T. pp. 1623-1624.*

286. Deviations are defined by statute at N.C.G.S. §58-36-30(a) and are variances from the approved Bureau manual rate. *DOI-5, O'Neil Prefiled Testimony, p. 43.* Downward deviations are a form of savings, which are returned by insurers to certain of their policyholders.

287. The issue of the due consideration to be given to dividends and deviations in the ratemaking process has long been an issue between the Department and the Bureau and the conflict has resulted in numerous court decisions. *358 N.C. 539, 597 S.E.2d 128 (2004); 350 N.C. 539, 543 S.E.2d (1999); 160 N.C. App. 416, 586 S.E.2d 470(2003); 124 N.C. App 674, 478 S.E.2 794 (1996).*

288. While the Bureau continues to treat anticipated policyholder dividends as a separate provision to be included in the rate, the Bureau actually included a 0% provision in this particular filing for dividends. *RB-12, Miller Prefiled Testimony, p. 63.*

289. Bureau witnesses Woods and Miller also testified that the Bureau has not included an explicit provision for deviations in this filing; but, instead has considered deviations by using the data from all risks as the basis for determining the Bureau manual rates. Woods and Miller also stated that this method of calculating the manual rates by using the experience of all risks is a market-based treatment of deviations that recognizes that insureds will pay a range of rates around the Bureau manual rates – some insureds will pay more than the average manual rate and some will pay less. *RB-11, Woods Prefiled Testimony, p. 31; RB-12, Miller Prefiled Testimony, pp. 56-57.*

290. The Department witnesses, Schwartz and O'Neil, both contended that the Bureau did include an additional loading for dividends and deviations in the rate level calculation. They

contended that dividend and deviations were included in the rate calculation through the use of the expanded database that includes voluntary, residual and consent-to-rate experience to calculate the Bureau manual rates for the voluntary market. *DOI-4, Schwartz Prefiled Testimony, pp. 54-55; DOI-5, O'Neil Prefiled Testimony, pp. 56-57.*

291. As discussed previously in Section V.A.2., prior to 2005 the database used by both the Bureau and the Commissioner for calculating the manual rates for the voluntary market consisted of only voluntary market data. The Bureau changed its database in the 2005 filing to include the combined premium, loss and expense experience of the policyholders in the voluntary, residual and consent-to-rate markets to set the rates for the voluntary market. The use of this expanded database creates a mismatch between the data underlying the proposed voluntary manual rates and the appropriate Bureau manual rates applicable to voluntary market insureds. *DOI-4, Schwartz Prefiled Testimony, pp. 54-55; DOI-5, O'Neil Prefiled Testimony, p. 54.*

292. The 2005 filing where the Bureau first introduced the expanded database was the first filing the Bureau made after the appellate courts affirmed the Commissioner's Order in the 2001 case rejecting the Bureau's explicit provision for dividends and deviations in the ratemaking calculation. This was the second time the appellate courts had upheld the Commissioner's rejection of an explicit provision in the proposed manual rates for dividends and deviations. 160 N.C. App. 416, 586 S.E.2d 407 (2003); 358 N.C. 539, 597 S.E.2d 128 (2004).

293. Moreover, minutes from various Bureau committee meetings contained in the 2005 filing indicate that as a result of the Supreme Court's decision in the 2001 case, the Bureau created the Task Force on Rating Methodology. The only issues that the Supreme Court considered in the 2001 case were profit and dividends and deviations. The Bureau's Task Force

on Rating Methodology looked at the issue of dividends and deviations and at the inclusion of all-industry ("total market") data in the filing and ultimately recommended to the Bureau's Automobile Committee that all-industry data be used in preparing the 2005 rate filing. *DOI-23, pp. H-789 to H-796.*

294. O'Neil testified that *RB-25* provides evidence that the Bureau included a provision for deviations in the filing through the use of the expanded database. O'Neil indicated that the use of the expanded database would result in a voluntary market rate level that was high enough to explicitly recoup the voluntary market deviations. *DOI-5, O'Neil Prefiled Testimony, p. 60.* Indeed, before the filing was actually made, *RB-25* was intended to be the second page of *RB-5*, which is the deviations exhibit included in the filing. Instead, this exhibit was separated from *RB-5* and renumbered as RB-25. *Lyon T. pp. 1129-1130; Powell T. pp. 1187-1189.*

295. O'Neil also testified that *RB-23* illustrates that the Bureau's use of an expanded database represents an explicit provision for deviations. *RB-23* shows three hypothetical scenarios where the combined database must be used in order to produce adequate rates. However, under each of the scenarios any apparent "shortfall" in the rates is equal to the amount of deviations. *DOI-5, O'Neil Prefiled Testimony, pp. 65-66.* Thus, *RB-23* requires rates to be set at the value which is adequate for the "worst" voluntary market insureds and at an excessive level for all other voluntary market insureds. Instead, rates should be set to be adequate for the average voluntary market insured.

296. O'Neil also found that Bureau's use of the expanded database resulted in an overstatement in the indicated voluntary manual rate level change of 14.4 percentage points. That number is close to the average combined liability and physical damage dividends and

deviations as a percentage of premium of 13.0% calculated by O'Neil for the years 1998-2006. *DOI-5, O'Neil Prefiled Testimony, pp. 72-73, Exhibit 11, p. 4.*

297. The Bureau disputed the contentions of the Department witnesses that the use of the expanded database represents a provision for dividends and deviations. *RB-12, Miller Prefiled Testimony, p. 56; RB-32, Appel Prefiled Testimony, p. 14.*

298. However, the Bureau witnesses also indicated that through the use of the expanded database, the Bureau gives due consideration to deviations. *RB-11, Woods Prefiled Testimony, p. 31; RB-12, Miller Prefiled Testimony, p. 14.* Other than the testimony on the expanded database, the Bureau's filing fails to provide any evidence that the Bureau considered dividends and deviations in the ratemaking process.

299. The evidence in the record is overwhelming that the use of the expanded database is an attempt by the Bureau to include an explicit provision in the rate level calculation for dividends and deviations. Over the years, the Bureau has attempted to include a similar factor through a variety of calculations and provisions. In many cases, these factors or calculations were not labeled "dividends and deviations;" but, it was evident what the purpose of the factors or calculations were. *O'Neil T. pp. 1612-1617; Exhibit DOI-31.* It also appears evident in this case that the purpose of using the expanded database is to provide a manual rate high enough to allow companies to provide dividends and to deviate to the fullest extent possible. This will effectively result in unregulated competition. *DOI-5, O'Neil Prefiled Testimony, pp. 64-65.*

300. The Commissioner has repeatedly held that the Bureau manual rate level contains within it a provision that the companies may use, in their discretion, to provide dividends and deviations to their policyholders. *See RB-39, Commissioner's Orders for the 1994, 1994 Remand, 1996, 2001 and 2002 automobile rate filings.* The Commissioner's orders with regards

to the issue of dividends and deviations have been repeatedly upheld by the courts. *358 N.C. 539, 597 S.E.2d 128 (2004); 160 N.C. App. 416, 586 S.E.2d 470 (2003); 350 N.C. 539, 543 S.E.2d (1999); 124 N.C. App. 674, 478 S.E.2d 794 (1996).*

301. Both O'Neil and Schwartz quantified the amount available in the manual rate for dividends and deviations as a result of lower than average expenses or losses. The amount available is approximately 6% of manual premium. *DOI-4, Schwartz Prefiled Testimony, p. 55, AIS-15; DOI-5, O'Neil Prefiled Testimony, pp. 43-45 and Exhibit 11, p. 2; DOI-18.*

302. O'Neil's and Schwartz' calculations of the amount available for dividends and deviations in the average manual rate is consistent with the Commissioner's findings in previous orders, which were upheld by the appellate courts. *Commissioner's Orders for 1994, 1994 Remand, 1996, 2001 and 2002 automobile rates cases; 358 N.C. 539, 597 S.E.2d 128 (2004); 160 N.C. App. 416, 586 S.E.2d 470 (2003); 350 N.C. 539, 543 S.E.2d (1999); 124 N.C. App. 674, 478 S.E.2d 794 (1996).*

303. Therefore, based upon the evidence in this case, the Commissioner finds herein that the Bureau's use of an expanded database is a surrogate for an explicit provision in the rates for dividends and deviations. The Commissioner has previously held that an explicit provision in the rates for dividends and deviations results in excessive and unfairly discriminatory rates. In this case, the use of the expanded database results in an overstatement of the indicated rate level change of approximately 14.4 percentage points. For this reason and for the reasons set forth in Section V.A.2. herein, the Commissioner rejects the use of the Bureau's expanded database because it will result in excessive rates.

304. The Commissioner also finds that a voluntary average manual rate will provide approximately +6.0% of manual premiums as savings that may be used to pay dividends and grant deviations to insureds.

305. Assuming that the Commissioner's ordered rate level change herein of -16.1% is implemented, the approximately +6.0% of premium amounts to approximately $161 million available in the manual rate for policyholder dividends and deviations. That amount is reasonable, adequate and is provided in the rates, which are adopted and approved herein by this Order and which are not inadequate, excessive, or unfairly discriminatory.

306. Dividends and deviations in excess of the approximately +6.0% of premium or approximately $161 million may occur, as in the past. If so, the excess may come from companies that are prepared to accept, on an individual basis, less than the average profit provided in the manual rate, from accumulated surplus, from lower expenses, from an excessive rate level implemented by the Bureau or from sources that are not within the jurisdiction of the Commissioner.

F. DUE CONSIDERATION OF INVESTMENT INCOME EARNED OR REALIZED BY INSURERS FROM THEIR UNEARNED PREMIUM, LOSS, AND LOSS EXPENSE RESERVE FUNDS GENERATED FROM BUSINESS WITHIN THIS STATE

307. Investment income from unearned premium, loss and loss adjustment expense reserve funds is also referred to as investment income from reserves, investment income from insurance operations and investment income from policyholder-supplied funds. Investment income from reserves is distinguishable from investment income from capital and surplus in that it is included in the profit calculations to compensate policyholders for the lost opportunity cost stemming from the pre-payment of unearned premiums and for the income from investing claim reserves held by the insurance company on behalf of the policyholders. Due consideration of

investment income from policyholder-supplied funds is required by N.C. Gen. Stat. §58-36-10(2).

308. Investment income from policyholder-supplied funds, which is to be included in the underwriting profit calculations, is income that will be earned during the prospective period during which the new rates will be in effect.

309. Because investment income from policyholder-supplied funds is a component of the return from insurance operations, it has a direct impact on the underwriting profit provisions. If the prospective investment income is high, then insurers will require lower underwriting profit provisions in order to meet their projected return on operations. Conversely, if the prospective investment income is low, then insurers will require higher underwriting profit provisions in order to meet their projected return on operations.

310. The investment income that results from policyholder-supplied funds depends upon: (1) the amount of dollars subject to investment; (2) the length of time those dollars can be invested; and (3) the investment rate, or yield, at which those dollars can be invested during the investment period.

1. AMOUNT OF DOLLARS SUBJECT TO INVESTMENT

311. Two different methodologies were proffered regarding the calculation of the amount of unearned premium, loss and loss adjustment expense reserves that will be subject to investment.

312. Bureau witness Appel, as he has done in prior years, used the ISO State X model, with two modifications. First, he removed the reduction for agents' balances from the State X calculation, and, instead included it in his rate of return calculations. Second, he adjusted the

trended loss, LAE and fixed expense ratios to reflect the proposed rate change. *RB-32, Appel Prefiled Testimony, pp. 10-11; RB-36, p. 7; RB-37, p. 7.*

313. Schwartz used essentially the same State X model as Appel with certain adjustments to Appel's inputs including adjustments for agents' balances, prepaid expenses, and the investment rate of return.[6] *DOI-4, Schwartz Prefiled Testimony, p. 43, AIS-6, Sheets 1 and 2.*

314. O'Neil utilized a cash flow model to estimate not only the amount of dollars subject to investment, but also the length of time those dollars can be invested. O'Neil's cash flow model measures the percent of premium dollars available for investment during the policy cycle by estimating the cash inflows and outflows of a given policy transaction. The cash inflows and outflows are estimated based upon a number of assumptions regarding the timing of both the receipt of income and the payment of losses and expenses. *DOI-5, O'Neil Prefiled Testimony, pp. 24-26, Exhibit 10.*

315. Conceptually the two methodologies are acceptable. However, the Commissioner will have to make certain modifications to the investment income calculations for agents' balances and prepaid expenses. The State X model is a traditional model used by Appel and Schwartz and the necessary modifications will be easier to make to the State X calculation than to O'Neil's cash flow model. Thus the Commissioner selects the State X model with appropriate adjustments discussed below to estimate the investment income on reserves.

[6] Appel makes a deduction for prepaid expenses in his State X model. *RB-32, Appel Prefiled Testimony, p. 11; RB-36, p. 7; RB-37, p. 7.* Appel's deduction for agents' balances is not actually in his State X model; he, instead, makes the deduction to the amount of investment income from policyholder-supplied funds in his rate of return calculation. *RB-32, Appel Prefiled Testimony, p. 11.* The impact is the same - it lowers the amount of investment income on reserves. *RB-36, p. 1; RB-37, p. 1; DOI-4, Schwartz Prefiled Testimony, p. 39.*

2. THE LENGTH OF TIME THE DOLLARS ARE INVESTED

316. The timing of the investment dollars is reflected in the methodologies in different ways.

317. Appel does not assume that the full amount of reserves is available for investment for the entire prospective period in which the rates will be effective. He, therefore, makes two deductions to account for the unavailability of funds for investment. First, he makes a deduction in the ISO State X calculation from the unearned premium reserves for prepaid expenses, which are expenses that Appel assumes are paid in full at policy inception. Second, he makes a deduction for agents' balances from the amount of investment income from reserves in his rate of return calculation. *RB-32, Appel Prefiled Testimony, p. 11; RB-36, pp. 1, 7; RB-37, pp. 1, 7.*

318. Both Schwartz and O'Neil assume that the full amount of unearned premium, loss and loss expense reserves are available for investment during the prospective period in which rates will be effective. Thus, they make no deductions for prepaid expenses and agents' balances in their calculations. *DOI-4, Schwartz Prefiled Testimony, pp. 43-44, Schedule AIS-6, Sheets 1 and 2; DOI-5, O'Neil Prefiled Testimony, p. 24, Exhibit 10.*

319. This issue of the deductions for agents' balances and prepaid expenses has been a long standing dispute between the parties. In previous cases, the Commissioner held that the Bureau's practice of reducing the amount of policyholder-supplied funds subject to investment was inappropriate. The Commissioner's findings with respect to prepaid expenses and agents' balances in the 1994, 1996 and 2001 cases were affirmed by the Court of Appeals in all cases. *124 N.C. App. at 691-692, 478 S.E.2d at 805 (1996); 129 N.C. App. at 673, 501 S.E.2d at 689 (1998); 160 N.C. App. 416, 431-433 (2003).*

320. The Department witnesses Schwartz and O'Neil adopted the Commissioner's view of prepaid expenses and agents' balances from the previous cases and incorporated that view into their testimonies in this case. *DOI-4, Schwartz Prefiled Testimony, p. 37; Schwartz T. pp. 451-457; DOI-5; O'Neil Prefiled Testimony, p. 24.*

321. Bureau witness Appel, however, presented evidence that the environment that gave rise to the Commissioner's initial Order on this issue in 1994 has changed substantially. *Appel T. pp. 1405-1411.*

322. As a result, the Department has withdrawn its objections to the Bureau's deductions for agents' balances and prepaid expenses. The Department has further indicated that the issue needs to be thoroughly reviewed but that not enough evidence exists in the record this year to review the issue as warranted. *See Exhibit 4, attached hereto.* However, as a result of the Department's withdrawal of its objections over the deduction for agents' balances and prepaid expenses, the Department indicates that installment payment investment income must be included as part of the calculations for investment income from reserves. The Bureau accounts for this installment payment income in its rate of return calculations *(RB-36, pp. 1, 3 and RB-37, pp. 1, 3)* and O'Neil accounts for this income in her calculation of the permissable loss ratio. *DOI-5, O'Neil Prefiled Testimony, p. 24, Exhibit 10.* Schwartz did not account for installment payment income in his State X model because he didn't make the deductions for agents' balances and prepaid expenses. But he does indicate that installment payment income is another source of income to the companies that should be considered. *Schwartz T. pp. 457-458.* Thus, it appears that the parties are in agreement, and, the Commissioner, therefore, finds that installment payment income should be included as a source of funds available for investment by insurance companies on behalf of the policyholders.

3. THE INVESTMENT RATE AT WHICH THE DOLLARS CAN BE INVESTED.

323. Several recommendations as to the rate or ("yield") at which policyholder-supplied funds can be invested were advanced in this case.

324. Appel utilized an average of the embedded and current yields resulting in a yield of +5.44%, which equals (5.59% + 5.29%)/2. Appel's embedded yield of +5.59% is the sum of the ratio of the 2006 investment income to average invested assets of +4.49% and the ten-year average ratio of realized capital gains to invested assets of +1.10%. Appel estimated his current yield from the yields available in today's capital markets for the portfolio of securities currently held by the P&C insurance industry. He then calculated a weighted average of those yield rates based on the proportion of assets held by the industry in each of the various securities such as stocks, bonds, real estate and the like. After deducting investment expenses, this calculation results in an estimated current yield of +5.29%. *RB-32, Appel Prefiled Testimony, p. 13; RB-36, pp. 10-13; RB-37, pp. 10-13.*

325. O'Neil used Appel's yield of +5.44% in her own calculations. *DOI-5, O'Neil Prefiled Testimony, p. 27.*

326. Schwartz selected +5.6% as the investment rate, which he indicated represents the actual investment return earned by the P&C industry during 2006 of +4.5% plus the long-term value from 1983 to 2006 of the investment gain from realized capital gains of +1.1%. In other words, Schwartz made his own calculation of a current and an embedded yield. *DOI-4, Schwartz Prefiled Testimony, p. 31, AIS-6, 7, Sheets 1, 2.*

327. This is not a significant issue and there is not a great amount of testimony to distinguish between the two recommendations. The Commissioner, in prior orders, has ordered

yields based on current market rates, but has also found that giving recognition to both current and embedded yields may be appropriate.

328. Considering the dearth of testimony on this issue, the Commissioner herein selects the Bureau's estimated yield of +5.44% because that figure is utilized by both the Bureau and O'Neil and it is very close to the +5.6% utilized by Schwartz. The Commissioner finds that a rate of +5.44% is an appropriate rate of return to apply to the investment of reserves.

4. SUMMARY

329. The Commissioner herein adopts a modified State X method, with appropriate adjustments, to calculate the amount of investment income. The Commissioner herein makes the deductions for prepaid expenses and agents' balances for the reasons discussed above and he includes the installment payment income of 1.12% as a source of funds available for investment. The Commissioner further adopts the Bureau's estimated investment yield rate of +5.44% to apply to the amount of reserves available for investment.

330. The Commissioner herein finds that the amount of investment income from reserves derived from the calculations in *Exhibit 1, Section C, pp. 11, 13 for liability and physical damage, respectively,* reasonably reflects the prospective amount of investment income on reserves, is supported by material and substantial evidence and will not lead to rates that are excessive, inadequate or unfairly discriminatory.

G. DUE CONSIDERATION OF PAST AND PROSPECTIVE EXPENSES ESPECIALLY APPLICABLE TO THIS STATE

331. The Bureau's actual past expense experience, as set forth in *RB-1, H-539 through H-540,* and prior to the application of any trend, are rejected herein based on the evidence in this case, as discussed more fully in Section V.A.2. and V.A.4.

332. The expenses are also trended in order to estimate the prospective expenses anticipated to occur during the period for which we are setting rates. The Commissioner's ordered expense trend is discussed *supra,* in Section IV.B.3.

333. The Commissioner hereby finds that the expense factors and the expense trend used in this Order are reasonable and will not lead to rates that are excessive, inadequate or unfairly discriminatory.

H. DUE CONSIDERATION OF ALL OTHER RELEVANT FACTORS WITHIN THIS STATE

1. GAS PRICES

334. The Bureau objected to any evidence by the Department witnesses that the rapid rise in gas prices is a factor which should be considered in setting rates in this proceeding. The Bureau contended that the issue of gas prices was not properly raised in the Notice. *T. pp. 318-319, 1730-1731.*

335. The Commissioner, however, makes note of the following issues duly raised in the Notice, *Exhibit 2, attached hereto:*

"IV.B. Due consideration has not been given to prospective loss and expense experience within this State in that. . .

3. The filing fails to consider the likely effects on experience of past and prospective changes in relevant economic and other causal variables. . ."

"IV.G. Due consideration has not been given to all other relevant factors within this State in that . . .

3. The filing fails to identify and quantify properly how changes in underlying causal factors that influence accident and loss frequency and severity over time can be expected to influence projected losses and loss trends. . .

12. The filing fails to give adequate consideration to economic, financial, social and regulatory influences on the experience and the trends. . ."

336. Certainly rising gas prices are a relevant economic pressure that impacts the consumers' use of their automobile. There was a wealth of evidence that the current increase in gas prices has caused a drop in the miles driven and there was also evidence that there is a direct correlation between miles driven and accident frequency. *See DOI 10 through DOI-16; DOI-4, Schwartz Prefiled Testimony, pp. 56-57; DOI-7, Hunter Prefiled Testimony, pp. 55-63.* It appears that the issue of rising gas prices as discussed by Department witnesses Schwartz and Hunter falls directly within the aforementioned provisions from the Notice. Thus, the Commissioner finds that the issue of gas prices was, indeed, appropriately raised in the Notice and any objections by the Bureau based on the Notice were properly overruled during the hearing.

337. The testimony in this case was that gas prices had, in the months preceding the hearing, reached an all-time high. The number of miles driven is negatively correlated with gasoline prices – that is, an increase in gasoline prices can be expected to decrease miles driven. A decrease in miles driven will result in a decrease in claim frequency. *DOI-4, Schwartz Prefiled Testimony, pp. 56-57, Appendices AIS-M, AIS-T, AIS-U; DOI-7, Hunter Prefiled Testimony, pp. 55-63; DOI-10 through DOI-16.*

338. As a result of the increase in gas prices, Department witness Schwartz recommended a 2% reduction in losses for the BI, PD, MP, UM and Coll coverages. Schwartz' 2% reduction was a "conservative estimate" based on his actuarial judgment as to the impact of the rising gas prices on vehicle miles driven and accident frequency. *DOI-4, Schwartz Prefiled Testimony, p. 56; Schwartz T. pp. 478-489.*

339. Department witness Hunter offered essentially the same testimony as Schwartz with regard to the impact of the rising gas prices on miles driven. However, Hunter did not recommend a numerical adjustment for gas prices as did Schwartz. Instead, Hunter recommended that rising gas prices be considered in trend selection. *DOI-7, Hunter Prefiled Testimony, pp. 59-62.*

340. Bureau witness Miller testified that the potential impact of rising gas prices on auto insurance claim frequencies and claim costs is highly speculative and that in the long-run, any impact of changing gas prices on insurance costs will be reflected in the actual loss experience which will eventually be reflected in the rates. *RB-12, Miller Prefiled Testimony, p. 50.*

341. Bureau witnesses Miller and Woods, and, Department witness O'Neil considered the rising cost of gasoline in the trend selections. *RB-11, Woods Prefiled Testimony, p. 14; RB-12, Miller Prefiled Testimony, p. 49; DOI-5, O'Neil Prefiled Testimony, p. 7.*

342. In addition, while there was a great deal of evidence that, over the short-term, the miles driven have been decreasing there was little evidence (because it isn't yet available) as to the impact of the decrease in miles driven on claim frequency. As Miller noted, that impact, if any, will eventually be reflected in the experience in future rate filings. Schwartz used his best judgment in estimating the impact on losses at 2%, but, the Commissioner finds that for this filing, the impact of gas prices is best considered, along with other factors, in the selection of trends, as indicated by Hunter, O'Neil, Woods and Miller.

343. The Commissioner's loss trend selections are set forth in Section V.B.1., *supra,* and in *Exhibit 1.*

2. OTHER FACTORS

344. The Bureau's proposed changes to the increased limits factors are contested by the Department because of different trend selections as well as by the database issue more fully explained in Section V.A.2.

345. Calculations for BI and PD increased limits review are displayed in Exhibit 1, Section B, pp. 43-52.

346. The appropriate factors adopted by the Commissioner are set forth in Exhibit 1, Section A, pp. 22-23, Column 4.

VI. RESULTS OF A PROPER LOSS RATIO METHOD AFTER CONSIDERATION OF N.C.G.S. §58-36-10

347. It is now appropriate to derive the permissible loss and expense ratio, which is needed in the LRM calculation, to compare to the projected loss and expense ratio already calculated. The permissible loss and expense ratio is calculated as the complement of the sum of commission and brokerage, taxes, licenses and fees, underwriting profit and contingencies. The appropriate and fitting permissible loss and expense ratios by coverage for use in the calculation of these rates are derived in *Exhibit 1, Section C, pp. 1-3, Line 6 (liability and physical damage); Exhibit 1, Section C, p. 5, Line 10, (UM-B/L and UM-T/L).*

348. The culmination of the LRM for making rates is the calculation of the indicated rate level change. This is a simple calculation and merely requires that the projected loss and expense ratio be divided by the appropriate permissible loss and expense ratio.

a. BI & PD Coverages

1. The basic limits indication for each of the three years for the liability coverages are posted in *Exhibit 1, Section B, pp. 6-8, Line 26 (BI) Exhibit 1, Section B. pp. 10-12, Line 26 (PD).* The

Commissioner adopted the three year average method as set forth in Section V.A. and the average of three years of BL indications is performed and displayed on Exhibit 1, Section B, p. 5, Column 5.

2. The Commissioner estimated the change in increased limits factors on Exhibit 1, Section B, pp. 44-47, Line 51 and posted these results in *Exhibit 1, Section B, p. 5, Column 6.*

3. The basic limits indications adjusted by the increased limits indications result in the total limits rate level changes for each year. The total limits rate level changes, which the Commissioner adopts herein, are posted on *Exhibit 1, Section B, p. 5, Column 7 (BI).*

b. MP, Comp and Coll Coverages

1. A total limits rate level indication is derived for each year for the MP, Comp and Coll coverages. The results for the three individual years for the MP, Comp and Coll coverages are posted in *Exhibit 1, Section B, pp. 14-16, Line 26 (MP); Exhibit 1, Section B, pp. 35-37, Line 30 (Comp); Exhibit 1, Section B, pp. 39-41, Line 30 (Coll); Exhibit 1, Section B, p. 5, Column 5.*

2. The total limits rate level indications are then averaged for the three years resulting in the indicated total limits rate level changes, which are posted in *Exhibit 1, Section B, p. 5, Column 7.*

c. UM

1. The UM coverage results in rate level changes for the three individual years for the basic limits. The rate level changes for the three years are then averaged (using premium weighting) resulting in the indicated rate level change for UM basic limits, which is posted in *Exhibit 1, Section B, pp. 21-22, Line 26 and p. 5, Column 7.*

2. The UM coverage also results in rate level changes for the three individual years for the total limits, which are posted in *Exhibit 1, Section B, pp. 21-22, Line 31*. The rate level changes for the three years are then averaged (using premium weighting) resulting in the indicated rate level change for UM total limits, which is posted in *Exhibit 1, Section B, pp. 21-22, Line 32; p. 5, Column 7.*

d. UIM

The UIM coverage results in rate level changes for the three individual years for the total limits, which are posted in *Exhibit 1, Section B, pp. 28-29, Line 18*. The rate level changes for the three years are then averaged (using premium weighting) resulting in the indicated rate level change for UIM total limits, which is posted in *Exhibit 1, Section B, pp. 28-29, Line 20; pp. 31-33, p. 5 Column 7.*

349. Based upon the foregoing Findings, which are incorporated herein by reference, the rate level changes so derived give due consideration to the factors listed in N.C. Gen. Stat. §58-36-10 and result in voluntary market manual rates which are, in fact, not excessive,

inadequate, or unfairly discriminatory, and will provide an overall adequate profit to the Bureau member companies in the aggregate.

VII. ORDERED RATE CHANGE

350. These various components derived in the Section above, produce for private passenger cars the rate level changes and rates as posted in *Exhibit 1, Section A, pp. 1-8.*

351. The ordered rate level changes by coverage, as set forth in the Section above, are not excessive, inadequate or unfairly discriminatory and will provide an overall adequate profit to the Bureau's members in the aggregate.

352. The overall ordered rate level change of –16.1% for private passenger cars is calculated based on an effective date of 01 January 2009.

VIII. MOTORCYCLE LIABILITY RATES

353. Motorcycle liability insurance rates are presented as a percentage (or relativity) of the private passenger car rates. This percentage relationship is determined based upon the indicated motorcycle rate change, which is determined through a separate rate level analysis. In order to factor in the effects of the change for PPA insurance rates, the Bureau must file for a change in the relativities used to establish the motorcycle liability premiums. *RB-10, Evans Prefiled Testimony, p. 5; RB-11, Woods Prefiled Testimony, p. 27.*

354. As discussed in Section V.D., supra, because the Bureau's selected underwriting profit provision of +8.0% (used for PPA liability) is excessive, the resulting filed increase of +1.2% for motorcycle liability, based on an effective date of 01 January 2009, will produce excessive rates for motorcycle liability.

355. For the reasons set forth in these Findings, the due consideration of a factor for underwriting profit for motorcycle liability is -0.5%.

356. In addition, two other adjustments must be made.

a. First, as discussed in detail in Section V.A.4.b., supra, the G&OA expenses need to be capped as they were for the automobile rate analysis.

b. Second, the loss trends for motorcycles were developed by taking a weighted average of the trends used to calculate automobile rates for BI, PD and MP coverages. *RB-11, Woods Prefiled Testimony, p. 28; RB-12, Miller Prefiled Testimony, p. 71.* Neither O'Neil nor Schwartz took exception to this procedure. Thus, the Commissioner adopts the Bureau's trend procedure for motorcycles herein. However, the Commissioner selected different loss trends for PD and MP than those utilized by the Bureau. The Commissioner, therefore, will substitute his own trend selections for PD and MP and then develop a motorcycle trend using the same procedure as the Bureau. The result can be found on *Exhibit 1, Section B, p. 56.*

357. Finally, it should be noted that Schwartz attempted to correct for the Bureau's use of voluntary and ceded business to calculate the motorcycle rate level change by applying a factor to adjust to voluntary business only. The Bureau utilized a combined database (voluntary and residual markets) for the premium, loss, and expense experience because the Bureau's special call for motorcycle experience does not distinguish between voluntary and ceded business. *RB-12, Miller Prefiled Testimony, p. 72.* However, motorcycle data in all prior filings has always been combined and a factor has never been applied to adjust the experience to voluntary only. While the Commissioner notes that there is a database issue as described more fully in Section V.A.2. with regard to PPA, he doesn't see the need to adopt an artificial adjustment factor for motorcycles when one has never been applied before. Therefore,

Schwartz' adjustment factor without additional evidence on how it was developed is rejected herein.

358. After making the indicated adjustments, the appropriate permissible loss ratio for motorcycle liability is posted in *Exhibit 1, Section C, pp. 7-9, Line 9.*

359. Utilizing the appropriate permissible loss ratios for motorcycle liability and applying the Bureau's method not otherwise adjusted, produces the following motorcycle liability rate level indications for the three years 2004-2006. The resulting premium weighted three-year average is shown in *Exhibit 1, Section B, pp. 53-54 for liability.* The total rate level change for motorcycles is a decrease of -11.2%.

360. The motorcycle liability rate change of -11.2% is calculated based on an effective date of 01 January 2009, and will produce rates that are not excessive, inadequate or unfairly discriminatory.

361. The Bureau's proposed rate level for motorcycle liability of +1.2% will result in rates that are excessive and unfairly discriminatory and will provide an excessive profit.

CONCLUSIONS OF LAW

I. The rates for private passenger cars and motorcycle liability calculated by the Bureau do not give due consideration to actual loss and expense experience within this state for the most recent three year period for which such information is available (for the reasons set forth in Findings Part V, Section A, and elsewhere in this Order, which are incorporated herein by reference); to prospective loss and expense experience within this State (for the reasons set forth in Findings Part V, Section B, and elsewhere in this Order, which are incorporated herein by reference); to a reasonable margin for underwriting profit and to contingencies (for the reasons set forth in Findings Part V, Section D and elsewhere in this Order, which are incorporated herein by reference); to dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers (for the reasons set forth in Findings Part V, Section E, and elsewhere in this Order, which are incorporated herein by reference); to investment income earned or realized by insurers from their unearned premium, loss, and loss expense reserve funds generated from business within this State (for the reasons set forth in Findings Part V, Section F, and elsewhere in this Order, which are incorporated herein by reference); to past and prospective expenses especially applicable to this state (for the reasons set forth in Findings Part V, Section G, and elsewhere in this Order, which are incorporated herein by reference) and to all other relevant factors within this State (for the reasons set forth in Findings Part V, Section H. and elsewhere in this Order, which are incorporated herein by reference).

II. The Bureau's proposed rate level increase for private passenger cars of plus twelve and nine tenths percent (+12.9%) is excessive and unfairly discriminatory for the reasons set forth in Findings Part I through Part V and elsewhere in this Order, which reasons are incorporated herein by reference. Accordingly, the Bureau's request for a rate increase of twelve and nine tenths percent (+12.9%) is herein denied and the filing is disapproved.

III. The rate level change for private passenger cars of minus sixteen and one tenth percent (-16.1%) as set forth in Finding Part VII, which is incorporated herein by reference, gives due consideration to all factors required by N.C. Gen. Stat. §58-36-10 for the reasons set forth in Findings Parts I, II, III, IV, V and VI, and elsewhere in this Order, which are incorporated herein by reference.

IV. Motorcycle liability rates are computed using the automobile liability underwriting profit factor, G&OA, and a weighted average of BI, PD and MP loss trends. Since the Bureau's proposed automobile liability underwriting profit factor, G&OA expenses, and PD and MP trends are excessive, the motorcycle percent change is excessive. Therefore, the Bureau's proposed increase of one and two tenths percent (+1.2%) for motorcycle liability will produce rates that are excessive and unfairly discriminatory for the reasons set forth in Findings Part V and Part VIII and elsewhere in this Order, which are incorporated herein by reference. Accordingly, the Bureau's request for a rate increase of +0.7% for motorcycle liability is disapproved.

V. The rate level change for motorcycle liability, as adjusted, of minus eleven and two tenths percent (-11.2%) as set forth in Finding Part VIII, which is incorporated herein by reference, gives due consideration to all factors required by N.C. Gen. Stat. §58-36-10 for the reasons set forth in Findings Parts I, II, III, IV, V, VI and VIII, and elsewhere in this Order, which are incorporated herein by reference.

VI. Such rates for private passenger cars and motorcycle liability as ordered herein are not excessive, inadequate or unfairly discriminatory and will provide an overall adequate and reasonable profit to the Bureau's member companies in the aggregate, and are approved.

NOW, THEREFORE, IT IS HEREBY ORDERED:

1. The Bureau's proposed overall increase of plus twelve and nine tenths percent (+12.9%) above the existing manual rate level for voluntary private passenger cars is disapproved for the reasons set forth in this Order.

2. An overall rate level decrease of minus sixteen and one tenth percent (-16.1%) below the existing manual rate level for voluntary private passenger cars is approved for the reasons set forth in this Order and shall be put into effect by coverage as shown below. These results are posted in *Exhibit 1, Section A, p. 1.*

PRIVATE PASSENGER CARS RATE CHANGE		
Coverages	Manual Total Limits Premium	Ordered Total Limits Rate Level Changes
Bodily Injury	$961,740,368	-19.1%
Property Damage	$711,501,641	-12.7%
Medical Payments	$123,631,246	-20.7%
Uninsured Motorists	$124,418,819	-19.9%
Underinsured Motorists	$79,435,482	43.8%
Liability	$2,000,727,556	-14.5%
Comprehensive	$402,106,730	-30.3%
Collision	$805,798,890	-12.9%
Physical Damage	$1,207,905,620	-18.7%
GRAND TOTAL	$3,208,633,176	-16.1%

3. The Bureau's proposed overall increase of plus one and two tenths percent (+1.2%) above the existing manual rate level for voluntary motorcycle liability is disapproved for the reasons set forth in this Order.

4. An overall decrease of eleven and two tenths percent (-11.2%) below the present manual rate level for voluntary motorcycle liability is approved and shall be put into effect as shown below. These results are posted on *Exhibit 1, Section B, p. 5.*

Motorcycle Rate Level Change		
	Manual Total Limits Premium	Rate Level Change
Liability	$24,908,420	-11.2%

5. As stipulated at the close of the hearing, the effective date upon which the Bureau and its member companies shall put into effect the manual rate level changes for private passenger cars and motorcycle liability is 01 January 2009.

6. The applicable ordered rates and relevant factors, by territory, are set forth in *Exhibit 1, Section A, pp. 2-8.* These rates are not excessive, inadequate or unfairly discriminatory and are hereby ordered.

This the 11TH day of September, 2008.

James E. Long
Commissioner of Insurance for the
State of North Carolina

CERTIFICATE OF SERVICE

I hereby certify that I have served copies of the foregoing Order on the following counsels of record via hand delivery:

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This the 11th day of September, 2008.

N.C. DEPARTMENT OF INSURANCE

James E. Long

James E. Long
Commissioner of Insurance for the
State of North Carolina

North Carolina

Automobile Insurance Rates

Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008

Section A

Ordered Statewide and Territory Rate Changes and
Materials to Be Implemented

Effective Date 01 January 2009

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Rate Level Changes

Coverage	Total Limits Earned Premium at Present Manual Rates	Ordered Total Limits Rate Level Change
Bodily Injury	$961,740,368	-19.1%
Property Damage	711,501,641	-12.7%
Medical Payments	123,631,246	-20.7%
Uninsured Motorists	124,418,819	-19.9%
Underinsured Motorists	79,435,482	43.8%
Voluntary Liability Subtotal	2,000,727,556	-14.5%
Comprehensive	402,106,730	-30.3%
Collision	805,798,890	-12.9%
Standard Physical Damage Subtotal	1,207,905,620	-18.7%
Private Passenger Car Total	**3,208,633,176**	**-16.1%**
Motorcycle Liability	24,908,420	-11.2%

Note:

Exhibit 1, Section B, Page 5, (1) and (7)

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Territory Base Class Rates - Voluntary Liability and Standard Physical Damage

					Model Year 2006, Symbol 2	
Territory	Description	$30,000/60,000 Bodily Injury	$25,000 Property Damage	$500 Medical Payments	Full Coverage Comprehensive	$100 Deductible Collision
11	Asheville	$103	$142	$13	$29	$190
13	Durham	150	168	18	37	200
14	Greensboro	143	160	17	32	193
15	High Point	156	156	19	32	189
16	Raleigh	138	165	17	32	186
17	Wilmington	161	172	20	34	197
18	Winston-Salem	130	147	16	32	185
24	Remainder-West	118	128	14	41	191
25	Gaston County	159	158	19	34	200
26	Remainder-South	183	140	22	50	206
31	Small City-East	145	148	18	38	187
32	Small City-West	120	137	15	36	182
33	Remainder-East	145	128	18	57	196
40	Fayetteville	188	176	23	39	238
41	Onslow County	146	163	18	42	233
43	Craven County	141	134	17	38	190
47	Wayne County	150	131	18	37	186
51	Mecklenberg County-Remainder	116	155	14	31	185
52	Charlotte	162	176	20	38	210

Note:

Exhibit 1, Section A, Page 9, (18); Page 11, (18); Page 13, (10); Page 18, (22); Page 20, (22)

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Statewide Rates - Uninsured Motorists Only

Bodily Injury Limit (000)	UMBI Single Car Policy Rate	UMBI Multi-Car Policy Rate	Property Damage Limit (000)	UMPD Single Car Policy Rate	UMPD Multi-Car Policy Rate
30/60	$11	$26	25	$2	$5
50/100	12	28	50	3	7
100/200	14	33	100	4	9
100/300	15	35	250	6	14
300/300	19	45	500	8	19
250/500	21	50	750	10	24
500/500	22	52	1000	11	26
500/1000	24	57			
1000/1000	25	59			

Note:

Exhibit 1, Section A, Page 15, (2), (4), (7), (9), (10) and (11)

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Statewide Rates - Combined Uninsured and Underinsured Motorists

Bodily Injury Limit (000)	UM/UMBI Single Car Policy Rate	UM/UMBI Multi-Car Policy Rate	Property Damage Limit (000)	UMPD Single Car Policy Rate	UMPD Multi-Car Policy Rate
50/100	$19	$45	25	$2	$5
100/200	40	94	50	3	7
100/300	51	120	100	4	9
300/300	74	175	250	6	14
250/500	89	210	500	8	19
500/500	126	297	750	10	24
500/1000	142	335	1000	11	26
1000/1000	162	382			

Note:

Exhibit 1, Section A, Page 17, (1), (3), (6), (8), (9) and (10)

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Increased Limits Factors - Bodily Injury and Property Damage

Bodily Injury

Limit (000)	Increased Limits Factor
30/60	1.00
50/100	1.19
100/100	1.33
100/200	1.41
100/300	1.43
300/300	1.67
250/500	1.70
500/1000	1.90
1000/1000	2.02
1000/2000	2.09

Property Damage

Limit (000)	Increased Limits Factor
25	1.000
35	1.003
50	1.005
100	1.016
250	1.032
300	1.037
500	1.061
750	1.082
1000	1.109

Note:

Exhibit 1, Section A, Page 22, (2) and (4); Page 23, (2) and (4)

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Symbol Ralativities - Comprehensive Coverage
Model Year 2009, Symbol 2 Base

	Model Year											
Symbol	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000 to 1990	1989 & Prior
1	0.76	0.72	0.68	0.65	0.61	0.58	0.54	0.50	0.46	0.42	0.39	0.15
2	1.05	1.00	0.95	0.90	0.85	0.80	0.75	0.69	0.64	0.59	0.54	0.17
3	1.19	1.13	1.07	1.02	0.96	0.90	0.85	0.78	0.72	0.67	0.61	0.24
4	1.31	1.25	1.19	1.13	1.06	1.00	0.94	0.86	0.80	0.74	0.68	0.29
5	1.48	1.41	1.34	1.27	1.20	1.13	1.06	0.97	0.90	0.83	0.76	0.34
6	1.67	1.59	1.51	1.43	1.35	1.27	1.19	1.10	1.02	0.94	0.86	0.44
7	1.83	1.74	1.65	1.57	1.48	1.39	1.31	1.20	1.11	1.03	0.94	0.54
8	1.98	1.89	1.80	1.70	1.61	1.51	1.42	1.30	1.21	1.12	1.02	0.64
10	2.14	2.04	1.94	1.84	1.73	1.63	1.53	1.41	1.31	1.20	1.10	0.81
11	2.32	2.21	2.10	1.99	1.88	1.77	1.66	1.52	1.41	1.30	1.19	0.98
12	2.53	2.41	2.29	2.17	2.05	1.93	1.81	1.66	1.54	1.42	1.30	1.15
13	2.72	2.59	2.46	2.33	2.20	2.07	1.94	1.79	1.66	1.53	1.40	1.35
14	2.94	2.80	2.66	2.52	2.38	2.24	2.10	1.93	1.79	1.65	1.51	1.59
15	3.23	3.08	2.93	2.77	2.62	2.46	2.31	2.13	1.97	1.82	1.66	1.92
16	3.56	3.39	3.22	3.05	2.88	2.71	2.54	2.34	2.17	2.00	1.83	2.33
17	3.93	3.74	3.55	3.37	3.18	2.99	2.81	2.58	2.39	2.21	2.02	2.80
18	4.29	4.09	3.89	3.68	3.48	3.27	3.07	2.82	2.62	2.41	2.21	3.34
19	4.68	4.46	4.24	4.01	3.79	3.57	3.35	3.08	2.85	2.63	2.41	3.99
20	5.19	4.94	4.69	4.45	4.20	3.95	3.71	3.41	3.16	2.91	2.67	4.73
21	5.76	5.49	5.22	4.94	4.67	4.39	4.12	3.79	3.51	3.24	2.96	6.55
22	6.50	6.19	5.88	5.57	5.26	4.95	4.64	4.27	3.96	3.65	3.34	
23	7.28	6.93	6.58	6.24	5.89	5.54	5.20	4.78	4.44	4.09	3.74	
24	8.43	8.03	7.63	7.23	6.83	6.42	6.02	5.54	5.14	4.74	4.34	
25	10.37	9.88	9.39	8.89	8.40	7.90	7.41	6.82	6.32	5.83	5.34	
26	12.74	12.13	11.52	10.92	10.31	9.70	9.10	8.37	7.76	7.16	6.55	

Note:

RB-1, B-4

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Symbol Ralativities - Collision Coverage
Model Year 2009, Symbol 2 Base

	Model Year											
Symbol	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000 to 1990	1989 & Prior
1	0.92	0.88	0.84	0.79	0.75	0.70	0.63	0.58	0.53	0.48	0.43	0.21
2	1.05	1.00	0.95	0.90	0.85	0.79	0.72	0.66	0.60	0.54	0.49	0.25
3	1.22	1.16	1.10	1.04	0.99	0.92	0.84	0.77	0.70	0.63	0.57	0.31
4	1.32	1.26	1.20	1.13	1.07	1.00	0.91	0.83	0.76	0.68	0.62	0.35
5	1.41	1.34	1.27	1.21	1.14	1.06	0.96	0.88	0.80	0.72	0.66	0.41
6	1.48	1.41	1.34	1.27	1.20	1.11	1.02	0.93	0.85	0.76	0.69	0.45
7	1.54	1.47	1.40	1.32	1.25	1.16	1.06	0.97	0.88	0.79	0.72	0.49
8	1.61	1.53	1.45	1.38	1.30	1.21	1.10	1.01	0.92	0.83	0.75	0.59
10	1.71	1.63	1.55	1.47	1.39	1.29	1.17	1.08	0.98	0.88	0.80	0.68
11	1.80	1.71	1.62	1.54	1.45	1.35	1.23	1.13	1.03	0.92	0.84	0.74
12	1.85	1.76	1.67	1.58	1.50	1.39	1.27	1.16	1.06	0.95	0.86	0.82
13	1.92	1.83	1.74	1.65	1.56	1.45	1.32	1.21	1.10	0.99	0.90	0.88
14	2.05	1.95	1.85	1.76	1.66	1.54	1.40	1.29	1.17	1.05	0.96	0.98
15	2.15	2.05	1.95	1.85	1.74	1.62	1.48	1.35	1.23	1.11	1.00	1.06
16	2.24	2.13	2.02	1.92	1.81	1.68	1.53	1.41	1.28	1.15	1.04	1.17
17	2.32	2.21	2.10	1.99	1.88	1.75	1.59	1.46	1.33	1.19	1.08	1.24
18	2.45	2.33	2.21	2.10	1.98	1.84	1.68	1.54	1.40	1.26	1.14	1.35
19	2.55	2.43	2.31	2.19	2.07	1.92	1.75	1.60	1.46	1.31	1.19	1.43
20	2.64	2.51	2.38	2.26	2.13	1.98	1.81	1.66	1.51	1.36	1.23	1.51
21	2.74	2.61	2.48	2.35	2.22	2.06	1.88	1.72	1.57	1.41	1.28	1.72
22	2.89	2.75	2.61	2.48	2.34	2.17	1.98	1.82	1.65	1.49	1.35	
23	3.00	2.86	2.72	2.57	2.43	2.26	2.06	1.89	1.72	1.54	1.40	
24	3.14	2.99	2.84	2.69	2.54	2.36	2.15	1.97	1.79	1.61	1.47	
25	3.39	3.23	3.07	2.91	2.75	2.55	2.33	2.13	1.94	1.74	1.58	
26	3.68	3.50	3.33	3.15	2.98	2.77	2.52	2.31	2.10	1.89	1.72	

Note:

RB-1, B-5

North Carolina
Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008
Ordered Motorcycle Liability and Medical Payment Rates

Liability Coverages	% of Applicable Private Passenger Rate
499 cc or Less	18%
500 - 1249 cc	29%
1250 - 1499 cc	39%
1500 cc or More	52%

Medical Payment Coverage	% of Private Passenger Medical Payment Rate
All Engine Sizes	43%

Note:

Exhibit 1, Section A, Page 24

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Ordered Territory Base Rates
Voluntary Bodily Injury

(1)	Projected General and Other Acquisition Expenses-Year Ended 2006	100,393,839
(2)	Statewide Premium at Present Manual Rates -Year Ended 2006	767,550,174
(3)	Statewide B/L Rate Level Change	-22.8%
(4)	Projected Fixed Expense Ratio	0.169
(5)	Projected Variable Expense Ratio	0.831
(6)	Present Statewide Average Base Rate	178.98
(7)	Projected Flattened Expenses	23.36

(8) Territory	(9) Earned Car Years Year Ended 12/31/2006	(10) 30/60 Present Average Premium	(11) 30/60 Loss Cost 3 Yrs Ended 12/31/2006	(12) Loss Ratio	(13) Credibility	(14) Formula Loss Ratio	(15) Index (14) to Statewide	(16) Class Factor Revision Offset	(17) 30/60 Present Base Class Rate	(18) 30/60 Revised Base Class Rate	(19) 30/60 Territory Rate Change
11	111,047	126.96	69.42	0.547	1.0	0.547	0.909	1.000	136	103	-24.3%
13	137,456	187.00	109.99	0.588	1.0	0.588	0.977	1.000	202	150	-25.7%
14	152,149	175.92	104.14	0.592	1.0	0.592	0.983	1.000	189	143	-24.3%
15	49,822	185.93	112.03	0.603	0.9	0.603	1.002	1.000	206	156	-24.3%
16	396,872	162.78	100.34	0.616	1.0	0.616	1.023	1.000	175	138	-21.1%
17	145,324	197.32	118.30	0.600	1.0	0.600	0.997	1.000	215	161	-25.1%
18	159,271	147.75	90.72	0.614	1.0	0.614	1.020	1.000	163	130	-20.2%
24	2,066,500	129.81	76.09	0.586	1.0	0.586	0.973	1.000	151	118	-21.9%
25	136,978	171.78	114.75	0.668	1.0	0.668	1.110	1.000	191	159	-16.8%
26	464,301	208.38	127.20	0.610	1.0	0.610	1.013	1.000	246	183	-25.6%
31	310,939	172.92	103.09	0.596	1.0	0.596	0.990	1.000	192	145	-24.5%
32	666,538	136.99	80.41	0.587	1.0	0.587	0.975	1.000	155	120	-22.6%
33	773,114	166.30	99.15	0.596	1.0	0.596	0.990	1.000	192	145	-24.5%
40	188,976	213.24	139.52	0.654	1.0	0.654	1.086	1.000	236	188	-20.3%
41	106,748	183.47	107.85	0.588	1.0	0.588	0.977	1.000	196	146	-25.5%
43	75,126	171.77	100.32	0.584	1.0	0.584	0.970	1.000	189	141	-25.4%
47	85,447	166.67	105.56	0.633	1.0	0.633	1.051	1.000	188	150	-20.2%
51	69,740	143.35	80.98	0.565	0.9	0.569	0.945	1.000	153	116	-24.2%
52	454,379	191.94	121.11	0.631	1.0	0.631	1.048	1.000	206	162	-21.4%
SW	6,550,727	158.62	95.43	0.602		0.602			178.98	138.07	-22.9%

Notes to Exhibit 1, Page 9

(1) Exhibit 1, Section B, Page 6, COI, Line (20)
(2) Exhibit 1, Section B, Page 6, COI, Line (1)
(3) Exhibit 1, Section B, Page 5, (5) Indicated Average BL Rate Change, Bodily Injury
(4) = (1) / {(2) x [1 + (3)]}
(5) = 1 - (4)
(6) (17) SW
(7) = (6) x [1 + (3)] x (4)
(8) RB-1, C-13, Terr
(9) RB-1, C-13, (1)
(10) RB-1, C-19, (2)
(11) RB-1, C-13, (2)
(12) = (11) / (10)
(13) RB-1, C-13, (5)
(14) = [(12) x (13)] + [(12) SW x [1 - (13)]
(15) = (14) / (14) SW
(16) RB-1, C-17, (9) Offset
(17) RB-1, C-13, (8)
(18) = {{(17) x [1+(3)] x (5) x (15)} + (7)} x (16)
(19) = [(18) / (17) / (16)] - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Ordered Territory Base Rates
Voluntary Property Damage

(1)	Projected General and Other Acquisition Expenses-Year Ended 2006	98,776,686
(2)	Statewide Premium at Present Manual Rates -Year Ended 2006	702,370,820
(3)	Statewide T/L Rate Level Change	-12.1%
(4)	Projected Fixed Expense Ratio	0.16
(5)	Projected Variable Expense Ratio	0.84
(6)	Present Statewide Average Base Rate	162.65
(7)	Projected Flattened Expenses	22.87

(8) Territory	(9) Earned Car Years Year Ended 12/31/2006	(10) $25,000 Present Average Premium	(11) $25,000 Loss Cost 3 Yrs Ended 12/31/2006	(12) Loss Ratio	(13) Credibility	(14) Formula Loss Ratio	(15) Index (14) to Statewide	(16) Class Factor Revision Offset	(17) $25,000 Present Base Class Rate	(18) $25,000 Revised Base Class Rate	(19) $25,000 Territory Rate Change
11	111,047	148.44	94.31	0.635	1.0	0.635	1.016	1.000	159	142	-10.7%
13	137,456	179.59	113.71	0.633	1.0	0.633	1.013	1.000	194	168	-13.4%
14	152,149	174.06	108.22	0.622	1.0	0.622	0.995	1.000	187	160	-14.4%
15	49,822	166.98	101.83	0.610	1.0	0.610	0.976	1.000	185	156	-15.7%
16	396,872	174.87	112.11	0.641	1.0	0.641	1.026	1.000	188	165	-12.2%
17	145,324	175.29	115.95	0.661	1.0	0.661	1.058	1.000	191	172	-9.9%
18	159,271	151.37	95.02	0.628	1.0	0.628	1.005	1.000	167	147	-12.0%
24	2,066,500	127.23	76.59	0.602	1.0	0.602	0.963	1.000	148	128	-13.5%
25	136,978	158.29	103.02	0.651	1.0	0.651	1.042	1.000	176	158	-10.2%
26	464,301	135.53	84.19	0.621	1.0	0.621	0.994	1.000	160	140	-12.5%
31	310,939	151.30	95.61	0.632	1.0	0.632	1.011	1.000	168	148	-11.9%
32	666,538	138.76	85.72	0.618	1.0	0.618	0.989	1.000	157	137	-12.7%
33	773,114	124.72	76.83	0.616	1.0	0.616	0.986	1.000	144	128	-11.1%
40	188,976	175.29	117.06	0.668	1.0	0.668	1.069	1.000	194	176	-9.3%
41	106,748	165.69	110.81	0.669	1.0	0.669	1.070	1.000	177	163	-7.9%
43	75,126	137.23	85.20	0.621	1.0	0.621	0.994	1.000	151	134	-11.3%
47	85,447	132.99	81.00	0.609	1.0	0.609	0.974	1.000	150	131	-12.7%
51	69,740	166.78	104.99	0.630	1.0	0.630	1.008	1.000	178	155	-12.9%
52	454,379	184.48	120.72	0.654	1.0	0.654	1.046	1.000	198	176	-11.1%
SW	6,550,727	144.47	90.27	0.625		0.625			162.65	142.74	-12.2%

Notes to Exhibit 1, Page 11

(1) Exhibit 1, Section B, Page 10, COI, Line (20)
(2) Exhibit 1, Section B, Page 10, COI, Line (1)
(3) Exhibit 1, Section B, Page 5, (5) Indicated Average BL Rate Change, Property Damage
(4) = (1) / {(2) x [1 + (3)]}
(5) = 1 - (4)
(6) (17) SW
(7) = (6) x [1 + (3)] x (4)
(8) RB-1, C-14, Terr
(9) RB-1, C-14, (1)
(10) RB-1, C-20, (2)
(11) RB-1, C-14, (2)
(12) = (11) / (10)
(13) RB-1, C-14, (5)
(14) = [(12) x (13)] + [(12) SW x [1 - (13)]
(15) = (14) / (14) SW
(16) RB-1, C-17, (9) Offset
(17) RB-1, C-14, (8)
(18) = {[(17) x [1+(3)] x (5) x (15)} + (7)} x (16)
(19) = [(18) / (17) / (16)] - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Ordered Territory Base Rates
Medical Payments

(1)	Average Voluntary Medical Payments ILF	2.294
(2)	Percent of Bodily Injury Rate	12.200%
(3)	Indicated Total Limits Rate Level Change	-20.7%
(4)	Target Rate Level Change	-20.7%

(5) Territory	(6) Earned Car Years Year Ended 12/31/2003	(7) Present Med Pay Rate	(8) Revised Bodily Injury Rate	(9) BI Class Plan Offset	(10) Revised $500 Med Pay Rate	(11) Revised T/L Med Pay Rate	(12) Present T/L Med Pay Rate	(13) Territory Rate Change
11	73,195	16	103	1.000	13	29.82	36.70	-18.7%
13	94,775	24	150	1.000	18	41.29	55.06	-25.0%
14	105,980	22	143	1.000	17	39.00	50.47	-22.7%
15	35,698	24	156	1.000	19	43.59	55.06	-20.8%
16	303,241	21	138	1.000	17	39.00	48.17	-19.0%
17	100,758	25	161	1.000	20	45.88	57.35	-20.0%
18	109,622	19	130	1.000	16	36.70	43.59	-15.8%
24	1,581,439	18	118	1.000	14	32.12	41.29	-22.2%
25	94,752	22	159	1.000	19	43.59	50.47	-13.6%
26	364,724	29	183	1.000	22	50.47	66.53	-24.1%
31	243,321	23	145	1.000	18	41.29	52.76	-21.7%
32	502,510	18	120	1.000	15	34.41	41.29	-16.7%
33	666,906	23	145	1.000	18	41.29	52.76	-21.7%
40	111,528	28	188	1.000	23	52.76	64.23	-17.9%
41	66,893	23	146	1.000	18	41.29	52.76	-21.7%
43	60,019	22	141	1.000	17	39.00	50.47	-22.7%
47	68,724	22	150	1.000	18	41.29	50.47	-18.2%
51	53,464	18	116	1.000	14	32.12	41.29	-22.2%
52	307,656	24	162	1.000	20	45.88	55.06	-16.7%
SW	4,945,205	21.14	137.72			38.45	48.50	-20.7%

Notes to Exhibit 1, Page 13

(1) Exhibit 1, Section B, Page 51, (21) Prior ILF, Total/Average
(2) % Medical Payments Loss Costs of Bodily Injury Loss Costs, Solved for Iteratively.
(3) Exhibit 1, Section B, Page 5, (7) Indicated TL Rate Level Change, Medical Payments
(4) (13) SW
(5) RB-1, C-18, (5) Terr
(6) RB-1, C-18, (6)
(7) RB-1, C-18, (7)
(8) Exhibit 1, Section A, Page 9, (18)
(9) Exhibit 1, Section A, Page 11, (16)
(10) = (2) x (8)
(11) = (10) x (1)
(12) = (7) x (1)
(13) = [(11) / (12) / (10)] - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Ordered Uninsured Motorists Rates

Uninsured Motorists Only

(1) Multi-Car Policy Rate Factor: 2.36

(2)	(3)	(4)	(5)	(6)	(7)	(8)
Bodily Injury	UMBI Single Car Policy Rate			UMBI Multi-Car Policy Rate		
Limit (000)	Current	Ordered	Rate Change	Current	Ordered	Rate Change
30/60	15	11	-26.7%	35	26	-25.7%
50/100	16	12	-25.0%	38	28	-26.3%
100/200	18	14	-22.2%	42	33	-21.4%
100/300	19	15	-21.1%	45	35	-22.2%
300/300	22	19	-13.6%	52	45	-13.5%
250/500	24	21	-12.5%	57	50	-12.3%
500/500	25	22	-12.0%	59	52	-11.9%
500/1000	27	24	-11.1%	64	57	-10.9%
1000/1000	28	25	-10.7%	66	59	-10.6%

(9)	(10)	(11)
Property Damage Limit (000)	UNCHANGED Single Car Policy Rate	Multi-Car Policy Rate
25	2	5
50	3	7
100	4	9
250	6	14
500	8	19
750	10	24
1000	11	26

Notes:

(1) RB-1, E-9, (b)
(2) Exhibit 1, Section B, Page 26, (9)
(3) Exhibit 1, Section B, Page 26, (11)
(4) Exhibit 1, Section B, Page 26, (15)
(5) = [(4) / (3)] - 1
(6) = (1) x (3)
(7) = (1) x (4)
(8) = [(7) / (6)] - 1
(9) Exhibit 1, Section B, Page 26, (5)
(10) Exhibit 1, Section B, Page 26, (11)
(11) = (1) x (10)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Ordered Underinsured Motorists Bodily Injury Rates

Underinsured Motorists Bodily Injury Only

(1) Multi-Car Policy Rate Factor: 2.36

(2)	(3)	(4)	(5)	(6)	(7)	(8)
Bodily Injury	UIMBI Single Car Policy Rate			UIMBI Multi-Car Policy Rate		
Limit (000)	Current	Ordered	Rate Change	Current	Ordered	Rate Change
50/100	5	7	40.0%	12	17	41.7%
100/200	18	26	44.4%	42	61	45.2%
100/300	25	36	44.0%	59	85	44.1%
300/300	38	55	44.7%	90	130	44.4%
250/500	47	68	44.7%	111	160	44.1%
500/500	72	104	44.4%	170	245	44.1%
500/1000	82	118	43.9%	194	278	43.3%
1000/1000	95	137	44.2%	224	323	44.2%

Notes:

(1) RB-1, E-15, (2)
(2) Exhibit 1, Section B, Page 33, (2)
(3) Exhibit 1, Section B, Page 33, (4)
(4) Exhibit 1, Section B, Page 33, (5)
(5) = [(4) / (3)] - 1
(6) = (1) x (3)
(7) = (1) x (4)
(8) = [(7) / (6)] - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Ordered Combined Uninsured Motorists and Underinsured Motorists Rates

Combined Uninsured and Underinsured Motorists

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bodily Injury	UM/UIM BI Single Car Policy Rate			UM/UIM BI Multi-Car Policy Rate		
Limit (000)	Current	Ordered	Rate Change	Current	Ordered	Rate Change
50/100	21	19	-9.5%	50	45	-10.0%
100/200	36	40	11.1%	84	94	11.9%
100/300	44	51	15.9%	104	120	15.4%
300/300	60	74	23.3%	142	175	23.2%
250/500	71	89	25.4%	168	210	25.0%
500/500	97	126	29.9%	229	297	29.7%
500/1000	109	142	30.3%	258	335	29.8%
1000/1000	123	162	31.7%	290	382	31.7%

(8)	(9)	(10)
	UNCHANGED	
Property Damage Limit (000)	Single Car Policy Rate	Multi-Car Policy Rate
25	2	5
50	3	7
100	4	9
250	6	14
500	8	19
750	10	24
1000	11	26

Notes:

(1) Exhibit 1, Section A, Page 16, (2)
(2) Exhibit 1, Section A, Page 15, (3) + Exhibit 1, Section A, Page 16, (3)
(3) Exhibit 1, Section A, Page 15, (4) + Exhibit 1, Section A, Page 16, (4)
(4) = [(3) / (2)] - 1
(5) Exhibit 1, Section A, Page 15, (6) + Exhibit 1, Section A, Page 16, (6)
(6) Exhibit 1, Section A, Page 15, (7) + Exhibit 1, Section A, Page 16, (7)
(7) = [(6) / (5)] - 1
(8) Exhibit 1, Section A, Page 15, (3) + Exhibit 1, Section A, Page 15, (9)
(9) Exhibit 1, Section A, Page 15, (3) + Exhibit 1, Section A, Page 15, (10)
(10) Exhibit 1, Section A, Page 15, (3) + Exhibit 1, Section A, Page 15, (11)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Ordered Territory Base Rates
Standard Full Coverage Comprehensive

(1)	Projected General and Other Acquisition Expenses-Year Ended 2006	53,199,460
(2)	Statewide Premium at Present Manual Rates -Year Ended 2006	402,106,730
(3)	Statewide Rate Level Change	-30.3%
(4)	Projected Fixed Expense Ratio	0.19
(5)	Projected Variable Expense Ratio	0.81
(6)	Present Statewide Average Base Rate	57.44
(7)	Projected Flattened Expenses	7.60
(8)	Offset for Change in Model Year Base from 2007 to 2009	1.013
(9)	Offset for Change in Deductible Relativity	1.000

(10) Territory	(11) Earned Car Years Year Ended 12/31/2006	(12) Present Average Premium	(13) Loss Cost 3 Yrs Ended 12/31/2006	(14) Loss Ratio	(15) Credibility	(16) Formula Loss Ratio	(17) Index (16) to Statewide	(18) Class Factor Revision Offset	(19) 2007 Present Base Class Rate	(20) Model Year Base Change Factor	(21) Year 2009, Symbol 2: Present Base Class Rate	(22) Year 2009, Symbol 2: Revised Base Class Rate	(23) Year 2009, Symbol 2: Base Class Rate Change	(24) Territory Rate Change
11	78,934	74.44	38.31	0.515	1.0	0.515	0.904	1.000	38	1.10	42	29	-31.0%	-31.5%
13	96,388	103.00	51.49	0.500	1.0	0.500	0.877	1.000	54	1.10	59	37	-37.3%	-38.5%
14	110,386	84.56	44.28	0.524	1.0	0.524	0.919	1.000	43	1.10	47	32	-31.9%	-33.2%
15	36,209	84.79	43.37	0.511	1.0	0.511	0.896	1.000	43	1.10	47	32	-31.9%	-33.2%
16	309,538	91.65	43.84	0.478	1.0	0.478	0.839	1.000	45	1.10	50	32	-36.0%	-36.2%
17	111,296	77.46	45.77	0.591	1.0	0.591	1.037	1.000	40	1.10	44	34	-22.7%	-23.7%
18	114,614	79.35	44.22	0.557	1.0	0.557	0.977	1.000	40	1.10	44	32	-27.3%	-28.2%
24	1,399,243	97.53	56.67	0.581	1.0	0.581	1.019	1.000	53	1.10	58	41	-29.3%	-30.6%
25	95,598	83.01	45.48	0.548	1.0	0.548	0.961	1.000	44	1.10	48	34	-29.2%	-30.7%
26	298,626	117.83	68.08	0.578	1.0	0.578	1.014	1.000	66	1.10	73	50	-31.5%	-32.0%
31	235,584	99.37	54.42	0.548	1.0	0.548	0.961	1.000	51	1.10	56	38	-32.1%	-33.1%
32	483,045	87.82	48.52	0.552	1.0	0.552	0.968	1.000	46	1.10	51	36	-29.4%	-29.8%
33	502,182	127.58	79.54	0.623	1.0	0.623	1.093	1.000	72	1.10	79	57	-27.8%	-29.0%
40	134,883	96.31	53.15	0.552	1.0	0.552	0.968	1.000	52	1.10	57	39	-31.6%	-32.7%
41	77,367	81.80	54.09	0.661	1.0	0.661	1.160	1.000	46	1.10	51	42	-17.6%	-18.1%
43	54,825	78.62	50.35	0.640	1.0	0.640	1.123	1.000	43	1.10	47	38	-19.1%	-20.7%
47	57,448	82.11	47.98	0.584	1.0	0.584	1.025	1.000	45	1.10	50	37	-26.0%	-26.2%
51	58,609	84.71	46.59	0.550	1.0	0.550	0.965	1.000	39	1.10	43	31	-27.9%	-28.7%
52	352,770	97.75	55.17	0.564	1.0	0.564	0.989	1.000	48	1.10	53	38	-28.3%	-29.0%
SW	4,607,545	98.01	55.87	0.570		0.570					57.44	40.45	-29.6%	-30.5%

Notes to Exhibit 1, Section A, Page 18

(1) Exhibit 1, Section B, Page 35, COI, Line (24)
(2) Exhibit 1, Section B, Page 35, COI, Line (6)
(3) Exhibit 1, Section B, Page 5, (7) Indicated Rate Level Change, Comprehensive
(4) = (1) / {(2) x [1 + (3)]}
(5) = 1 - (4)
(6) (21) SW
(7) = (6) x [1 + (3)] x (4)
(8) RB-1, C-17, Offset
(9) No Deductivity Relativity Revision
(10) RB-1, C-15, Terr
(11) RB-1, C-15, (1)
(12) RB-1, C-22, (2)
(13) RB-1, C-15, (2)
(14) = (13) / (12)
(15) RB-1, C-15, (5)
(16) = [(14) x (15)] + {(14) SW x [1 - (15)]}
(17) = (16) / (16) SW
(18) RB-1, C-17, (9) Offset
(19) RB-1, C-22, (3)
(20) RB-1, C-15, (8) / RB-1, C-22, (3)
(21) = (19) x (20)
(22) = {[(21) x [1 + (3)] x (5) x (17)} + (7)} x (8) x (9) x (18)
(23) = [(22) / (21)] - 1
(24) = {(22) / [(19) x (20) x (8) x (9)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Ordered Territory Base Rates
Standard $100 Deductible Collision

(1) Projected General and Other Acquisition Expenses-Year Ended 2006	107,647,928
(2) Statewide Premium at Present Manual Rates -Year Ended 2006	805,798,890
(3) Statewide Rate Level Change	-12.9%
(4) Projected Fixed Expense Ratio	0.153
(5) Projected Variable Expense Ratio	0.847
(6) Present Statewide Average Base Rate	217.75
(7) Projected Flattened Expenses	29.03
(8) Offset for Change in Model Year Base from 2007 to 2009	1.029
(9) Offset for Change in Deductible Relativity	1.000

(10) Territory	(11) Earned Car Years Year Ended 12/31/2006	(12) Present Average Premium	(13) Loss Cost 3 Yrs Ended 12/31/2006	(14) Loss Ratio	(15) Credibility	(16) Formula Loss Ratio	(17) Index (16) to Statewide	(18) Class Factor Revision Offset	(19) 2007 Present Base Class Rate	(20) Model Year Base Change Factor	(21) Year 2009, Symbol 2 Present Base Class Rate	(22) Year 2009, Symbol 2 Revised Base Class Rate	(23) Year 2009, Symbol 2 Base Class Rate Change	(24) Territory Rate Change
11	73,803	216.51	139.60	0.645	1.0	0.645	1.024	1.000	187	1.10	206	190	-7.8%	-10.2%
13	91,929	245.22	151.66	0.618	1.0	0.618	0.981	1.000	208	1.10	229	200	-12.7%	-15.1%
14	103,835	236.30	143.62	0.608	1.0	0.608	0.965	1.000	202	1.10	222	193	-13.1%	-15.6%
15	33,999	230.35	138.00	0.599	1.0	0.599	0.951	1.000	201	1.10	221	189	-14.5%	-16.9%
16	297,009	232.68	143.90	0.618	1.0	0.618	0.981	1.000	191	1.10	210	186	-11.4%	-14.0%
17	107,109	231.60	148.71	0.642	1.0	0.642	1.019	1.000	196	1.10	216	197	-8.8%	-11.2%
18	106,217	212.08	134.13	0.632	1.0	0.632	1.003	1.000	185	1.10	204	185	-9.3%	-11.7%
24	1,246,541	209.58	128.66	0.614	1.0	0.614	0.975	1.000	197	1.10	217	191	-12.0%	-14.3%
25	88,290	225.60	144.01	0.638	1.0	0.638	1.013	1.000	201	1.10	221	200	-9.5%	-12.1%
26	280,435	227.35	144.06	0.634	1.0	0.634	1.006	1.000	210	1.10	231	206	-10.8%	-13.3%
31	225,033	217.55	139.03	0.639	1.0	0.639	1.014	1.000	185	1.10	204	187	-8.3%	-10.7%
32	439,491	207.71	127.45	0.614	1.0	0.614	0.975	1.000	187	1.10	206	182	-11.7%	-14.0%
33	468,707	211.11	133.97	0.635	1.0	0.635	1.008	1.000	197	1.10	217	196	-9.7%	-12.1%
40	129,810	281.16	190.01	0.676	1.0	0.676	1.073	1.000	232	1.10	255	238	-6.7%	-9.4%
41	74,361	293.65	190.00	0.647	1.0	0.647	1.027	1.000	237	1.10	261	233	-10.7%	-13.1%
43	52,739	217.09	141.16	0.650	1.0	0.650	1.032	1.000	185	1.10	204	190	-6.9%	-9.3%
47	54,190	218.35	133.25	0.610	1.0	0.610	0.968	1.000	194	1.10	213	186	-12.7%	-15.3%
51	56,641	231.19	149.90	0.648	1.0	0.648	1.029	1.000	180	1.10	198	185	-6.6%	-9.2%
52	340,427	253.23	167.83	0.663	1.0	0.663	1.052	1.000	205	1.10	226	210	-7.1%	-9.5%
SW	4,270,566	223.01	140.36	0.629		0.630					217.75	194.96	-10.5%	-13.0%

Notes to Exhibit 1, Section A, Page 20

(1) Exhibit 1, Section B, Page 39, COI, Line (24)
(2) Exhibit 1, Section B, Page 39, COI, Line (6)
(3) Exhibit 1, Section B, Page 5, (7) Indicated Rate Level Change, Collision
(4) = (1) / {(2) x [1 + (3)]}
(5) = 1 - (4)
(6) (21) SW
(7) = (6) x [1 + (3)] x (4)
(8) RB-1, C-17, Offset
(9) No Deductivity Relativity Revision
(10) RB-1, C-16, Terr
(11) RB-1, C-16, (1)
(12) RB-1, C-23, (2)
(13) RB-1, C-16, (2)
(14) = (13) / (12)
(15) RB-1, C-16, (5)
(16) = [(14) x (15)] + {(14) SW x [1 - (15)]}
(17) = (16) / (16) SW
(18) RB-1, C-17, (9) Offset
(19) RB-1, C-23, (3)
(20) RB-1, C-16, (8) / RB-1, C-23, (3)
(21) = (19) x (20)
(22) = {[(21) x [1 + (3)] x (5) x (17)} + (7)} x (8) x (9) x (18)
(23) = [(22) / (21)] - 1
(24) = {(22) / [(19) x (20) x (8) x (9)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Ordered Bodily Injury Increased Limits Factors

(1) Indicated Change to Excess Limits Increments 23.4%

(2) Limit (000)	(3) Current ILF 30/60 Base	(4) Indicated Increased Limits Factor
30/60	1.00	1.00
50/100	1.15	1.19
100/100	1.27	1.33
100/200	1.33	1.41
100/300	1.35	1.43
300/300	1.54	1.67
250/500	1.57	1.70
500/1000	1.73	1.90
1000/1000	1.83	2.02
1000/2000	1.88	2.09

Notes:

(1) Exhibit 1, Section B, Page 51, (1)
(2) Exhibit 1, Section B, Page 51, (3)
(3) RB-1, G-4, (1)
(4) = {[(3) - 1] x [1 + (1)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Ordered Property Damage Increased Limits Factors

(1) Indicated Change to Excess Limits Increments -46.2%

(2) Limit (000)	(3) Current ILF $25,000 Base	(4) Indicated Increased Limits Factor
25	1.000	1.000
35	1.005	1.003
50	1.010	1.005
100	1.030	1.016
250	1.059	1.032
300	1.069	1.037
500	1.113	1.061
750	1.153	1.082
1,000	1.202	1.109

Notes:

(1) Exhibit 1, Section B, Page 51, (10)
(2) Exhibit 1, Section B, Page 51, (12)
(3) RB-1, G-5, (1)
(4) = {[(3) - 1] x [1 + (1)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Ordered Motorcycle Liability Relativity

Private Passenger Liability

(1) Coverage	(2) Total Limits Premium At Present Rates	(3) Indicated Change
Bodily Injury	961,740,368	-19.1%
Property Damage	711,501,641	-12.7%
BI & PD Total	1,673,242,009	-16.4%
Medical Payments	123,631,246	-20.7%

Motorcycles

(4)	Motorcycle Liability	-11.2%
(5)	Motorcycle Liability Factor	1.062
(6)	Motorcycle Med Pay Factor	1.12

Motorcycle Liability Relativities

(7) Engine Size (cc)	(8) Current % of Applicable Private Passenger Rate	(9) Ordered % of Applicable Private Passenger Rate
0-499	17%	18%
500-1249	27%	29%
1250-1499	37%	39%
1500-up	49%	52%

Motorcycle Medical Payment Relativities

(10) Engine Size (cc)	(11) Current % of Applicable Private Passenger Rate	(12) Ordered % of Applicable Private Passenger Rate
All Engine Sizes	38%	43%

Notes:

(1) RB-1, F-6
(2) Exhibit 1, Section B, Page 5, (1)
(3) Exhibit 1, Section B, Page 5, (7)
(4) Exhibit 1, Section B, Page 5, (7)
(5) = [1 + (4)] / [1 + [(3) BI & PD Total]
(6) = [1 + (4)] / [1 + [(3) Medical Payments]
(7) RB-1, F-6
(8) RB-1, F-6, (6)
(9) = (8) x (5)
(10) RB-1, F-6
(11) RB-1, F-6, (8)
(12) = (11) x (6)

North Carolina

Automobile Insurance Rates

Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008

Section B

Statewide Rate Changes and Comparisons

Effective Date 01 January 2009

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Summary of Statewide Rate Level Changes

	(1)	(2)	(3)	(4)
		Total Limits Rate Level Changes		
Coverage	**NCRB**	**OCS**	**AIS**	**COI**
Bodily Injury	14.6%	-17.3%	-18.5%	-19.1%
Property Damage	15.4%	-15.2%	-16.5%	-12.7%
Medical Payments	9.3%	-18.6%	-23.4%	-20.7%
Uninsured Motorists	-5.5%	-20.2%	-36.7%	-19.9%
Underinsured Motorists	106.9%	60.0%	26.6%	43.8%
Voluntary Liability Subtotal	16.5%	-13.8%	-17.5%	-14.5%
Comprehensive	-0.9%	-35.1%	-35.1%	-30.3%
Collision	11.3%	-20.0%	-21.5%	-12.9%
Standard Physical Damage Subtotal	7.3%	-25.0%	-26.1%	-18.7%
Voluntary/Standard Private Passenger Car Total	**12.9%**	**-18.0%**	**-20.8%**	**-16.1%**
Motorcycle Liability	1.2%	-11.9%	-26.2%	-11.2%

Notes:

(1) Exhibit 1, Section B, Page 2, (4)
(2) Exhibit 1, Section B, Page 3, (10)
(3) Exhibit 1, Section B, Page 4, (11)
(4) Exhibit 1, Section B, Page 5, (7)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Summary of Statewide Rate Level Changes - NCRB

Coverage	(1) EP at Present Manual Rates	(2) Basic Limits Rate Level Change	(3) Increased Limits Factor	(4) Total Limits Rate Level Change
Bodily Injury	1,251,273,903	7.7%	6.4%	14.6%
Property Damage	958,580,909	15.9%	-0.4%	15.4%
Medical Payments	149,912,585	---	---	9.3%
Uninsured Motorists	124,418,819	---	---	-5.5%
Underinsured Motorists	79,435,482	---	---	106.9%
Liability Subtotal	2,563,621,698	---	---	16.5%
Comprehensive	527,587,675	---	---	-0.9%
Collision	1,098,258,596	---	---	11.3%
Physical Damage Subtotal	1,625,846,271	---	---	7.3%
Grand Total	**4,189,467,969**	**---**	**---**	**12.9%**
Motorcycle Liability	24,908,420	---	---	1.2%

Notes:

(1) RB-1, A-1, combined voluntary and ceded/standard and non-standard premium
(2) Exhibit 1, Section B, Pages 6 and 10, NCRB, Line (26)
(3) Exhibit 1, Section B, Page 49, (9) Effective % Change, Total/Average
(4) Bodily Injury and Property Damage: = {[1 + (2)] x [1 + (3)]} - 1
Medical Payments:Exhibit 1, Section B, Page 14, Line (26)
Unisured Motorists: Exhibit 1, Section B, Page 24, (20) Rate Change, Total/Average
Underinsured Motorists: Exhibit 1, Section B, Page 31, (6) Effective Rate Change, Total/Average
Comprehensive: Effective Rate Change of Exhibit 1, Section B, Page 35, NCRB, Line (30)
Collision: Effective Rate Change of Exhibit 1, Section B, Page 39, NCRB, Line (30)
Motorcycle: Exhibit 1, Section B, Page 53, NCRB, Line (22)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Summary of Statewide Rate Level Changes - OCS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Total Limits Premium	Basic Limits Rate Level Indication						Indicated BL Rate	Increased Limits	Recommended TL Rate
		Year Ended 12/31/2004		Year Ended 12/31/2005		Year Ended 12/31/2006				
Coverage	(000)	%	Weight	%	Weight	%	Weight	Change	Factor	Level Change
Bodily Injury	962,508	-23.3%	0%	-23.1%	0%	-24.3%	100%	-24.3%	9.2%	-17.3%
Property Damage	711,502	-12.3%	0%	-12.4%	0%	-14.7%	100%	-14.7%	-0.5%	-15.2%
Medical Payments	123,631	-24.1%	0%	-21.9%	0%	-18.6%	100%	-18.6%	---	-18.6%
Uninsured Motorists	124,419	---	---	---	---	---	---	-23.9%	---	-20.2%
Underinsured Motorists	79,435	---	---	---	---	---	---	---	---	60.0%
Voluntary Liability Subtotal	2,001,495	---	---	---	---	---	---	---	---	-13.8%
Comprehensive	401,817	-38.6%	33.8%	-36.2%	33.5%	-29.8%	32.7%	-35.1%	---	-35.1%
Collision	817,514	-18.0%	0.0%	-15.9%	0.0%	-20.0%	100.0%	-20.0%	---	-20.0%
Standard Physical Damage Subtotal	1,219,331	---	---	---	---	---	---	-25.0%	---	-25.0%
Vol/Std Private Passenger Car Total	**3,220,826**	---	---	---	---	---	---	---	---	**-18.0%**
Motorcycle Liability	24,908	---	---	---	---	---	---	---	---	-11.9%

Notes:

(1) DOI-5, Exhibit 1 Page 1, (1)
(2) Exhibit 1, Section B, Pages 8, 12 and 16, OCS, Line (26); Pages 37 and 41, OCS Line (30)
(3) DOI-5, Exhibit 2 Page 4, V.E.
(4) Exhibit 1, Section B, Pages 7, 11 and 15, OCS, Line (26); Pages 36 and 40, OCS, Line (30)
(5) DOI-5, Exhibit 2 Page 4, V.F.
(6) Exhibit 1, Section B, Pages 6, 10 and 14, OCS, Line (26); Pages 35 and 39, OCS, Line (30)
(7) DOI-5, Exhibit 2 Page 4, V.G.
(8) =[(2) x (3)] + [(4) x (5)] + [(6) x (7)]
Uninsured Motorists: Exhibit 1, Section B, Page 18, OCS Line (16)
(9) Exhibit 1, Section B, Page 50, (9) Effective % Change, Total/Average; (18) Effective % Change, Total/Average
(10) Bodily Injury and Property Damage: = {[1 + (8)] x [1 + (9)]} - 1
Medical Payments: (8) Medical Payments
Unisured Motorists: Exhibit 1, Section B, Page 25, (20) Rate Change, Total/Average
Underinsured Motorists: Exhibit 1, Section B, Page 32, (6) Effective Rate Change, Total/Average
Comprehensive: (8) Comprehensive
Collision: (9) Collision
Motorcycle: Exhibit 1, Section B, Page 53, OCS, Line (22)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Summary of Statewide Rate Level Changes - AIS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Premium	Indicated Rate Level Change									Average
	Volume	Year Ended 12/31/2004			Year Ended 12/31/2005			Year Ended 12/31/2006			Rate Level
Coverage	(000)	Basic Limits	ILF	Total Limits	Basic Limits	ILF	Total Limits	Basic Limits	ILF	Total Limits	Change
Bodily Injury	963,066	-25.9%	9.0%	-19.2%	-25.5%	9.0%	-18.7%	-24.3%	9.0%	-17.5%	-18.5%
Property Damage	711,559	-16.3%	-0.5%	-16.8%	-16.0%	-0.5%	-16.5%	-15.7%	-0.5%	-16.2%	-16.5%
Medical Payments	123,631	---	---	-26.7%	---	---	-24.2%	---	---	-18.8%	-23.4%
Uninsured Motorists	97,157	---	---	-36.6%	---	---	-37.8%	---	---	-35.8%	-36.7%
Underinsured Motorists	63,151	---	---	25.4%	---	---	19.7%	---	---	34.7%	26.6%
Voluntary Liability Subtotal	1,958,564	---	---	-18.1%	---	---	-18.1%	---	---	-16.3%	-17.5%
Comprehensive	395,996	---	---	-39.6%	---	---	-37.3%	---	---	-28.4%	-35.1%
Collision	793,197	---	---	-22.1%	---	---	-20.3%	---	---	-22.3%	-21.5%
Standard Physical Damage Subtotal	1,189,193	---	---	-27.9%	---	---	-26.0%	---	---	-24.3%	-26.1%
Vol/Std Private Passenger Car Total	**3,147,757**	---	---	**-21.8%**	---	---	**-21.1%**	---	---	**-19.4%**	**-20.8%**
Motorcycle Liability	25,483	---	---	-27.1%	---	---	-30.2%	---	---	-21.3%	-26.2%

Notes:

(1) DOI-4, Schedule AIS-1, (2)
(2) Exhibit 1, Section B, Pages 8 and 12, AIS, Line (26)
(3) Exhibit 1, Section B, Page 44, AIS, Line (18); Page 47, AIS, Line (10)
(4) Bodily Injury and Property Damage: = {[1 + (2)] x [1 + (3)]} - 1
Medical Payments: Exhibit 1, Section B, Page 16, AIS, Line (26)
Uninsured Motorists: Exhibit 1, Section B, Page 22, AIS AY Ending 12/31/2004, Line (31)
Underinsured Motorists: Exhibit 1, Section B, Page 29, AIS AY Ending 12/31/2004 Line (18)
Comprehensive: Exhibit 1, Section B, Page 37, AIS, Line (30)
Collision: Exhibit 1, Section B, Page 41, AIS, Line (30)
Motorcycles: Exhibit 1, Section B, Page 54, AIS Year Ended 12/31/2004, Line (21)
(5) Exhibit 1, Section B, Pages 7 and 11, AIS, Line (26)
(6) Exhibit 1, Section B, Page 44, AIS, Line (18); Page 47, AIS, Line (10)
(7) Bodily Injury and Property Damage: = {[1 + (5)] x [1 + (6)]} - 1
Medical Payments: Exhibit 1, Section B, Page 15, AIS, Line (26)
Uninsured Motorists: Exhibit 1, Section B, Page 22, AIS AY Ending 12/31/2005, Line (31)
Underinsured Motorists: Exhibit 1, Section B, Page 29, AIS AY Ending 12/31/2005 Line (18)
Comprehensive: Exhibit 1, Section B, Page 36, AIS, Line (30)
Collision: Exhibit 1, Section B, Page 40, AIS, Line (30)
Motorcycles: Exhibit 1, Section B, Page 54, AIS Year Ended 12/31/2005, Line (21)
(8) Exhibit 1, Section B, Pages 6 and 10, AIS, Line (26)
(9) Exhibit 1, Section B, Page 44, AIS, Line (18); Page 47, AIS, Line (10)
(10) Bodily Injury and Property Damage: = {[1 + (8)] x [1 + (9)]} - 1
Medical Payments: Exhibit 1, Section B, Page 14, AIS, Line (26)
Uninsured Motorists: Exhibit 1, Section B, Page 22, AIS AY Ending 12/31/2006, Line (31)
Underinsured Motorists: Exhibit 1, Section B, Page 29, AIS AY Ending 12/31/2006 Line (18)
Comprehensive: Exhibit 1, Section B, Page 35, AIS, Line (30)
Collision: Exhibit 1, Section B, Page 39, AIS, Line (30)
Motorcycles: Exhibit 1, Section B, Page 54, AIS Year Ended 12/31/2006, Line (21)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Summary of Statewide Rate Level Changes - COI

Coverage	(1) Earned Premium at Current Manual Level	(2) Basic/Total Limits Indicated Rate Level Change 12/31/2004	(3) 12/31/2005	(4) 12/31/2006	(5) Indicated Average BL/TL Rate Change	(6) Effective Increased Limits Factor	(7) Indicated TL Rate Level Change
Bodily Injury	961,740,368	-22.5%	-22.3%	-23.5%	-22.8%	4.8%	-19.1%
Property Damage	711,501,641	-11.3%	-11.3%	-13.8%	-12.1%	-0.6%	-12.7%
Medical Payments	123,631,246	-23.4%	-21.1%	-17.6%	-20.7%	---	-20.7%
Uninsured Motorists	124,418,819	---	---	---	-22.7%	---	-19.9%
Underinsured Motorists	79,435,482	---	---	---	---	---	43.8%
Voluntary Liability Subtotal	2,000,727,556	---	---	---	---	---	-14.5%
Comprehensive	402,106,730	-34.4%	-31.8%	-24.8%	-30.3%	---	-30.3%
Collision	805,798,890	-12.9%	-10.7%	-15.0%	-12.9%	---	-12.9%
Standard Physical Damage Subtotal	1,207,905,620	---	---	---	---	---	-18.7%
Vol/Std Private Passenger Car Total	**3,208,633,176**	---	---	---	---	---	**-16.1%**
Motorcycle Liability	24,908,420	-9.8%	-15.1%	-8.7%	-11.2%		-11.2%

Notes:

(1) Bodily Injury = 767,550,174 x 1.253; Exhibit 1, Section B, Page 6, COI, Line (1); Page 51, (5) Current BI ILF, Total/Average
Property Damage = 702,370,820 x 1.013; Exhibit 1, Section B, Page 10, COI, Line (1); Page 51, (14) Current PD ILF, Total/Average
Medical Payments: Exhibit 1, Section B, Page 14, COI, Line (1)
Uninsured Motorists: Exhibit 1, Section B, Page 22, COI, Line (3), AY Ending 12/31/2006
Underinsured Motorists: Exhibit 1, Section B, Page 29, COI, Line (1), AY Ending 12/31/2006
Comprehensive: Exhibit 1, Section B, Page 35, COI, Line (6)
Collision: Exhibit 1, Section B, Page 39, COI, Line (6)

(2) Exhibit 1, Section B, Pages 8, 12 and 16, COI, Line (26); Pages 37 and 41, COI, Line (30); Page 54, COI Year Ended 12/31/2004, Line (21)

(3) Exhibit 1, Section B, Pages 7, 11 and 15, COI, Line (26); Pages 36 and 40, COI, Line (30); Page 54, COI Year Ended 12/31/2005, Line (21)

(4) Exhibit 1, Section B, Pages 6, 10 and 14, COI, Line (26); Pages 35 and 39, COI, Line (30); Page 54, COI Year Ended 12/31/2006, Line (21)

(5) Average of (2), (3) and (4)
Uninsured Motorists: Exhibit 1, Section B, Page 19, COI, Line (26)

(6) Exhibit 1, Section B, Page 52, (9) Effective % Change, Total/Average; (18) Effective % Change, Total/Average

(7) = {[1 +(5)] x [1 + (6)]} - 1
Medical Payments: (5) Medical Payments
Uninsured Motorists: Exhibit 1, Section B, Page 26, (20) Rate Change, Total/Average
Underinsured Motorists: Exhibit 1, Section B, Page 33, (6) Effective Rate Change, Total/Average
Comprehensive: (5) Comprehensive
Collision: (5) Collision
Motorcycle: (5) Motorcycle

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits (30/60) Bodily Injury Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2006			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	1,040,993,264	767,550,174	767,550	767,550,174
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	554,842,157	319,460,407	319,460	319,460,407
(3)	Loss Development Factor	1.121	1.121	1.121	1.121
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	621,978,058	358,115,116	350,952	358,115,116
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.127	0.127	0.127	0.127
(7)	Unallocated Loss Adjustment Expense	78,991,213	45,480,620	44,571	45,480,620
(8)	General and Other Acquisition Expenses (G&OA)	150,909,837	89,797,709	98,468	89,797,709
(9)	Earned Exposures	6,562,794	5,053,333	---	5,053,333
(10)	Incurred Claims	96,548	55,610	---	55,610
(11)	Claim Development Factor	0.943	---	---	---
(12)	Developed Claims	91,045	---	---	---
(13)	Average Annual Change in Losses and ALAE	0.8%	0.8%	0.8%	0.8%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	3.28	3.28	3.28	3.28
(16)	Years of Trend - ULAE	3.28	3.28	3.28	3.28
(17)	Years of Trend - G&OA Expenses	3.00	3.00	3.00	3.00
(18)	Projected Losses and ALAE	638,149,488	367,598,050	360,245	367,426,109
(19)	Projected ULAE	89,260,071	51,398,885	48,331	51,393,101
(20)	Projected General and Other Acquisition Expenses	168,717,198	100,428,579	106,039	100,393,839
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	896,126,757	519,425,513	514,616	519,213,049
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.861	0.677	0.670	0.676
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.799	0.894	0.886	0.884
(24)	Indicated Basic Limits Rate Level Change	7.8%	-24.3%	-24.3%	-23.5%
(25)	Adjustment Factor for Increase in MVR Fee	0.000%	0.000%	0.000%	0.000%
(26)	Final Indicated Basic Limits Rate Level Change	7.8%	-24.3%	-24.3%	-23.5%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits (30/60) Bodily Injury Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2005			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	1,020,545,981	743,832,472	743,832	743,832,472
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	577,570,259	323,279,560	323,280	323,279,560
(3)	Loss Development Factor	1.050	1.050	1.050	1.050
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	606,448,772	339,443,538	332,655	339,443,538
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.128	0.128	0.128	0.128
(7)	Unallocated Loss Adjustment Expense	77,625,443	43,448,773	42,580	43,448,773
(8)	General and Other Acquisition Expenses (G&OA)	132,194,251	86,365,346	85,174	86,365,346
(9)	Earned Exposures	6,422,373	4,922,505	---	4,922,505
(10)	Incurred Claims	93,422	53,201	---	53,201
(11)	Claim Development Factor	0.980	---	---	---
(12)	Developed Claims	91,554	---	---	---
(13)	Average Annual Change in Losses and ALAE	1.0%	1.0%	1.0%	1.0%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	4.28	4.28	4.28	4.28
(16)	Years of Trend - ULAE	4.28	4.28	4.28	4.28
(17)	Years of Trend - G&OA Expenses	4.00	4.00	4.00	4.00
(18)	Projected Losses and ALAE	633,132,518	354,211,800	347,128	354,379,054
(19)	Projected ULAE	91,054,645	50,968,540	47,326	50,965,411
(20)	Projected General and Other Acquisition Expenses	153,477,525	100,260,284	94,016	100,270,167
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	877,664,688	505,440,624	488,471	505,614,632
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.860	0.680	0.657	0.680
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.793	0.888	0.880	0.878
(24)	Indicated Basic Limits Rate Level Change	8.4%	-23.5%	-25.5%	-22.6%
(25)	Adjustment Factor for Increase in MVR Fee	0.435%	0.435%	0.000%	0.435%
(26)	Final Indicated Basic Limits Rate Level Change	8.9%	-23.1%	-25.5%	-22.3%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits (30/60) Bodily Injury Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2004			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	992,624,022	715,581,420	715,581	715,581,420
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	595,341,155	324,771,196	324,771	324,771,196
(3)	Loss Development Factor	1.016	1.016	1.016	1.016
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	604,866,613	329,967,535	323,368	329,967,535
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.113	0.113	0.113	0.113
(7)	Unallocated Loss Adjustment Expense	68,349,927	37,286,331	36,541	37,286,331
(8)	General and Other Acquisition Expenses (G&OA)	130,586,642	84,332,989	83,170	84,332,989
(9)	Earned Exposures	6,230,615	4,755,167	---	4,755,167
(10)	Incurred Claims	95,297	53,174	---	53,174
(11)	Claim Development Factor	0.988	---	---	---
(12)	Developed Claims	94,153	---	---	---
(13)	Average Annual Change in Losses and ALAE	0.6%	0.6%	0.6%	0.6%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	5.28	5.28	5.28	5.28
(16)	Years of Trend - ULAE	5.28	5.28	5.28	5.28
(17)	Years of Trend - G&OA Expenses	5.00	5.00	5.00	5.00
(18)	Projected Losses and ALAE	624,222,345	340,556,011	333,745	340,526,496
(19)	Projected ULAE	83,250,211	45,401,655	41,629	45,414,751
(20)	Projected General and Other Acquisition Expenses	157,356,904	101,621,186	94,099	101,621,252
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	864,829,460	487,578,853	469,473	487,562,499
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.871	0.681	0.656	0.681
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.798	0.893	0.885	0.883
(24)	Indicated Basic Limits Rate Level Change	9.1%	-23.7%	-25.9%	-22.9%
(25)	Adjustment Factor for Increase in MVR Fee	0.580%	0.580%	0.000%	0.580%
(26)	Final Indicated Basic Limits Rate Level Change	9.7%	-23.3%	-25.9%	-22.5%

* NCRB displayed in loss ratio methodology for comparison.

Notes to Exhibit 1, Section B, Pages 6, 7 and 8

NCRB (North Carolina Rate Bureau)

RB-1, C-1, C-3; RB-4; DOI-5, Exhibit 2, Pages 1-3

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 2, Pages 1, 2 and 3

AIS (Allan I. Schwartz)

DOI-4, Schedule AIS-2, Sheets 1a, 1b and 1c

COI (Commissioner of Insurance)

(1) RB-4, OCS, AIS
(2) OCS, AIS
(3) NCRB, OCS, AIS
(4) NCRB, OCS
(5) = (2) x (3) x (4)
(6) NCRB, OCS, AIS
(7) = (5) x (6)
(8) OCS
(9) OCS
(10) OCS
(11) OCS, AIS
(12) OCS, AIS
(13) NCRB, OCS, AIS
(14) NCRB, OCS
(15) NCRB, OCS, AIS
(16) NCRB, OCS, AIS
(17) NCRB, OCS, AIS
(18) = (5) x {[1 + (13)] ^ (15)}
(19) = (7) x {[1 + (14)] ^ (16)}
(20) = (8) x {[1 + (14)] ^ (17)}
(21) = (18) + (19) + (20)
(22) = (21) / (1)
(23) Exhibit 1, Section C, Pages 1-3, Voluntary Liability COI Line (6)
(24) = [(22) / (23)] - 1
(25) NCRB, OCS
(26) = {[1 + (24)] * [1 + (25)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits ($25,000) Property Damage Liability
Statewide Rate Review

Voluntary Business

	Accident Year Ending 12/31/2006			
	NCRB*	OCS	AIS (000)	COI
(1) Earned Premiums at Manual Rates	948,151,245	702,370,820	702,371	702,370,820
(2) Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	583,393,339	367,232,972	367,233	367,232,972
(3) Loss Development Factor	1.029	1.029	1.029	1.029
(4) Factor to Adjust for Gas Price	---	---	0.980	---
(5) Developed Losses and ALAE	600,311,746	377,882,728	370,325	377,882,728
(6) Unallocated Loss Adjustment Expense (ULAE) Factor	0.111	0.111	0.111	0.111
(7) Unallocated Loss Adjustment Expense	66,634,604	41,944,983	41,106	41,944,983
(8) General and Other Acquisition Expenses (G&OA)	145,771,853	88,351,240	96,882	88,351,240
(9) Earned Exposures	6,562,794	5,053,333	---	5,053,333
(10) Incurred Claims	243,717	150,664	---	150,664
(11) Claim Development Factor	1.013	---	---	---
(12) Developed Claims	246,885	---	---	---
(13) Average Annual Change in Losses and ALAE	2.0%	0.9%	0.4%	0.9%
(14) Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15) Years of Trend - Losses and ALAE	3.28	3.28	3.28	3.28
(16) Years of Trend - ULAE	3.28	3.28	3.28	3.28
(17) Years of Trend - G&OA Expenses	3.00	3.00	3.00	3.00
(18) Projected Losses and ALAE	640,532,633	389,152,717	375,206	389,219,210
(19) Projected ULAE	75,297,103	47,403,165	44,574	47,397,831
(20) Projected General and Other Acquisition Expenses	162,972,932	98,810,867	104,331	98,776,686
(21) Projected Losses, LAE and Gen & Other Acq Expenses	878,802,668	535,366,749	524,111	535,393,727
(22) Projected Loss, LAE and G&OA Expense Ratio	0.927	0.762	0.746	0.762
(23) Permissible Loss, LAE and G&OA Expense Ratio	0.799	0.894	0.886	0.884
(24) Indicated Basic Limits Rate Level Change	16.0%	-14.7%	-15.7%	-13.8%
(25) Adjustment Factor for Increase in MVR Fee	0.000%	0.000%	0.000%	0.000%
(26) Final Indicated Basic Limits Rate Level Change	16.0%	-14.7%	-15.7%	-13.8%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits ($25,000) Property Damage Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2005			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	928,848,709	680,501,377	680,501	680,501,377
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	568,284,887	352,657,004	352,657	352,657,004
(3)	Loss Development Factor	1.009	* 1.009	1.009	1.009
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	573,399,451	355,830,917	348,714	355,830,917
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.122	0.122	0.122	0.122
(7)	Unallocated Loss Adjustment Expense	69,954,733	43,411,372	42,543	43,411,372
(8)	General and Other Acquisition Expenses (G&OA)	127,544,057	86,212,582	85,023	86,212,582
(9)	Earned Exposures	6,422,373	4,922,505	---	4,922,505
(10)	Incurred Claims	244,205	147,319	---	147,319
(11)	Claim Development Factor	1.004	---	---	---
(12)	Developed Claims	245,182	---	---	---
(13)	Average Annual Change in Losses and ALAE	2.1%	1.3%	0.9%	1.3%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	4.28	4.28	4.28	4.28
(16)	Years of Trend - ULAE	4.28	4.28	4.28	4.28
(17)	Years of Trend - G&OA Expenses	4.00	4.00	4.00	4.00
(18)	Projected Losses and ALAE	626,725,600	376,055,640	362,346	376,113,279
(19)	Projected ULAE	82,056,902	50,924,665	47,285	50,921,539
(20)	Projected General and Other Acquisition Expenses	148,078,650	100,082,943	93,849	100,092,808
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	856,861,152	527,063,248	503,481	527,127,626
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.922	0.775	0.740	0.775
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.793	0.888	0.880	0.878
(24)	Indicated Basic Limits Rate Level Change	16.3%	-12.8%	-16.0%	-11.7%
(25)	Adjustment Factor for Increase in MVR Fee	0.440%	0.440%	0.000%	0.440%
(26)	Final Indicated Basic Limits Rate Level Change	16.8%	-12.4%	-16.0%	-11.3%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits ($25,000) Property Damage Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2004			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	903,009,184	654,760,126	654,760	654,760,126
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	559,572,994	340,812,724	340,813	340,812,724
(3)	Loss Development Factor	1.001	1.001	1.001	1.001
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	560,132,567	341,153,537	334,331	341,153,537
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.126	0.126	0.126	0.126
(7)	Unallocated Loss Adjustment Expense	70,576,703	42,985,346	42,126	42,985,346
(8)	General and Other Acquisition Expenses (G&OA)	127,046,578	84,370,793	83,207	84,370,793
(9)	Earned Exposures	6,230,615	4,755,167	4,755	4,755,167
(10)	Incurred Claims	244,709	145,050	---	145,050
(11)	Claim Development Factor	0.999	---	---	---
(12)	Developed Claims	244,464	---	---	---
(13)	Average Annual Change in Losses and ALAE	1.4%	0.8%	0.5%	0.8%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	5.28	5.28	5.28	5.28
(16)	Years of Trend - ULAE	5.28	5.28	5.28	5.28
(17)	Years of Trend - G&OA Expenses	5.00	5.00	5.00	5.00
(18)	Projected Losses and ALAE	602,702,642	355,812,735	343,252	355,823,139
(19)	Projected ULAE	85,962,424	52,341,052	47,992	52,356,151
(20)	Projected General and Other Acquisition Expenses	153,091,126	101,666,740	94,141	101,666,806
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	841,756,192	509,820,527	485,385	509,846,096
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.932	0.779	0.741	0.779
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.798	0.893	0.885	0.883
(24)	Indicated Basic Limits Rate Level Change	16.8%	-12.8%	-16.3%	-11.8%
(25)	Adjustment Factor for Increase in MVR Fee	0.580%	0.580%	0.000%	0.580%
(26)	Final Indicated Basic Limits Rate Level Change	17.5%	-12.3%	-16.3%	-11.3%

* NCRB displayed in loss ratio methodology for comparison.

Notes to Exhibit 1, Section B, Pages 10, 11 and 12

NCRB (North Carolina Rate Bureau)

RB-1, C-1, C-3; RB-4; DOI-5, Exhibit 2, Pages 1-3

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 2, Pages 1, 2 and 3

AIS (Allan I. Schwartz)

DOI-4, Schedule AIS-2, Sheets 1a, 1b and 1c

COI (Commissioner of Insurance)

(1) RB-4, OCS, AIS
(2) OCS, AIS
(3) NCRB, OCS, AIS
(4) NCRB, OCS
(5) = (2) x (3) x (4)
(6) NCRB, OCS, AIS
(7) = (5) x (6)
(8) OCS
(9) OCS
(10) OCS
(11) OCS, AIS
(12) OCS, AIS
(13) OCS
(14) NCRB, OCS
(15) NCRB, OCS, AIS
(16) NCRB, OCS, AIS
(17) NCRB, OCS, AIS
(18) = (5) x {[1 + (13)] ^ (15)}
(19) = (7) x {[1 + (14)] ^ (16)}
(20) = (8) x {[1 + (14)] ^ (17)}
(21) = (18) + (19) + (20)
(22) = (21) / (1)
(23) Exhibit 1, Section C, Pages 1-3, Voluntary Liability COI Line (6)
(24) = [(22) / (23)] - 1
(25) NCRB, OCS
(26) = {[1 + (24)] * [1 + (25)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Total Limits Medical Payments Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2006			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	149,912,585	123,631,246	123,631	123,631,246
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	90,537,990	64,071,411	64,071	64,071,411
(3)	Loss Development Factor	1.078	1.078	1.078	1.078
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	97,599,953	69,068,981	67,687	69,068,981
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.127	0.127	0.127	0.127
(7)	Unallocated Loss Adjustment Expense	12,395,194	8,771,761	8,596	8,771,761
(8)	General and Other Acquisition Expenses (G&OA)	19,048,893	12,845,104	14,085	12,845,104
(9)	Earned Exposures	4,953,935	4,019,835	---	4,019,835
(10)	Incurred Claims	57,582	37,283	---	37,283
(11)	Claim Development Factor	1.026	---	---	---
(12)	Developed Claims	59,079	---	---	---
(13)	Average Annual Change in Losses and ALAE	-0.6%	-1.5%	-1.5%	-1.5%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	3.28	3.28	3.28	3.28
(16)	Years of Trend - ULAE	3.28	3.28	3.28	3.28
(17)	Years of Trend - G & OA Expenses	3.00	3.00	3.00	3.00
(18)	Projected Losses and ALAE	95,647,954	65,728,525	64,414	65,753,670
(19)	Projected ULAE	14,006,569	9,913,205	9,321	9,912,090
(20)	Projected General and Other Acquisition Expenses	21,296,662	14,365,796	15,168	14,360,826
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	130,951,185	90,007,526	88,903	90,026,586
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.874	0.728	0.719	0.728
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.799	0.894	0.886	0.884
(24)	Indicated Basic Limits Rate Level Change	9.4%	-18.6%	-18.8%	-17.6%
(25)	Adjustment Factor for Increase in MVR Fee	0.000%	0.000%	0.000%	0.000%
(26)	Final Indicated Total Limits Rate Level Change	9.4%	-18.6%	-18.8%	-17.6%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Total Limits Medical Payments Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2005			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	147,208,550	121,117,701	121,118	121,117,701
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	88,600,011	62,368,490	62,368	62,368,490
(3)	Loss Development Factor	1.021	1.021	1.021	1.021
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	90,460,611	63,678,228	62,404	63,678,228
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.128	0.128	0.128	0.128
(7)	Unallocated Loss Adjustment Expense	11,578,958	8,150,813	7,988	8,150,813
(8)	General and Other Acquisition Expenses (G&OA)	17,105,471	12,607,331	12,433	12,607,331
(9)	Earned Exposures	4,831,441	3,918,901	---	3,918,901
(10)	Incurred Claims	58,758	35,934	---	35,934
(11)	Claim Development Factor	1.010	---	---	---
(12)	Developed Claims	59,346	---	---	---
(13)	Average Annual Change in Losses and ALAE	-0.9%	-1.6%	-1.6%	-1.6%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	4.28	4.28	4.28	4.28
(16)	Years of Trend - ULAE	4.28	4.28	4.28	4.28
(17)	Years of Trend - G & OA Expenses	4.00	4.00	4.00	4.00
(18)	Projected Losses and ALAE	87,023,108	59,430,583	58,241	59,411,787
(19)	Projected ULAE	13,582,118	9,561,491	8,878	9,560,904
(20)	Projected General and Other Acquisition Expenses	19,859,452	14,635,669	13,724	14,637,111
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	120,464,678	83,627,743	80,843	83,609,802
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.818	0.690	0.667	0.690
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.793	0.888	0.88	0.878
(24)	Indicated Basic Limits Rate Level Change	3.2%	-22.2%	-24.2%	-21.4%
(25)	Adjustment Factor for Increase in MVR Fee	0.440%	0.440%	0.000%	0.440%
(26)	Final Indicated Basic Limits Rate Level Change	3.7%	-21.9%	-24.2%	-21.1%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Total Limits Medical Payments Liability
Statewide Rate Review

Voluntary Business

		Accident Year Ending 12/31/2004			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	145,253,380	118,695,487	118,695	118,695,487
(2)	Reported Inc. Losses and Allocated Loss Adj. Expense (ALAE)	90,547,709	62,696,393	62,696	62,696,393
(3)	Loss Development Factor	1.007	1.007	1.007	1.007
(4)	Factor to Adjust for Gas Price	---	---	0.98	---
(5)	Developed Losses and ALAE	91,181,543	63,135,268	61,872	63,135,268
(6)	Unallocated Loss Adjustment Expense (ULAE) Factor	0.113	0.113	0.113	0.113
(7)	Unallocated Loss Adjustment Expense	10,303,514	7,134,285	6,992	7,134,285
(8)	General and Other Acquisition Expenses (G&OA)	16,909,685	12,541,994	12,369	12,541,994
(9)	Earned Exposures	4,685,435	3,793,950	---	3,793,950
(10)	Incurred Claims	61,152	36,443	---	36,443
(11)	Claim Development Factor	1.002	---	---	---
(12)	Developed Claims	61,274	---	---	---
(13)	Average Annual Change in Losses and ALAE	-1.7%	-2.2%	-2.2%	-2.2%
(14)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(15)	Years of Trend - Losses and ALAE	5.28	5.28	5.28	5.28
(16)	Years of Trend - ULAE	5.28	5.28	5.28	5.28
(17)	Years of Trend - G & OA Expenses	5.00	5.00	5.00	5.00
(18)	Projected Losses and ALAE	83,248,749	56,138,549	55,015	56,127,253
(19)	Projected ULAE	12,549,680	8,687,054	7,965	8,689,559
(20)	Projected General and Other Acquisition Expenses	20,376,170	15,113,093	13,994	15,113,103
(21)	Projected Losses, LAE and Gen & Other Acq Expenses	116,174,599	79,938,695	76,975	79,929,915
(22)	Projected Loss, LAE and G&OA Expense Ratio	0.800	0.673	0.649	0.673
(23)	Permissible Loss, LAE and G&OA Expense Ratio	0.798	0.893	0.885	0.883
(24)	Indicated Basic Limits Rate Level Change	0.3%	-24.6%	-26.7%	-23.8%
(25)	Adjustment Factor for Increase in MVR Fee	0.580%	0.580%	0.000%	0.580%
(26)	Final Indicated Basic Limits Rate Level Change	0.9%	-24.1%	-26.7%	-23.4%

* NCRB displayed in loss ratio methodology for comparison.

Notes to Exhibit 1, Section B, Pages 14, 15 and 16

NCRB (North Carolina Rate Bureau)

RB-1, C-1, C-3; RB-4; DOI-5, Exhibit 2, Pages 1-3

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 2, Pages 1, 2 and 3

AIS (Allan I. Schwartz)

DOI-4, Schedule AIS-2, Sheets 1a, 1b and 1c

COI (Commissioner of Insurance)

(1) RB-4, OCS, AIS
(2) OCS, AIS
(3) NCRB, OCS, AIS
(4) NCRB, OCS
(5) = (2) x (3) x (4)
(6) NCRB, OCS, AIS
(7) = (5) x (6)
(8) OCS
(9) OCS
(10) OCS
(11) OCS, AIS
(12) OCS, AIS
(13) OCS, AIS
(14) NCRB, OCS
(15) NCRB, OCS, AIS
(16) NCRB, OCS, AIS
(17) NCRB, OCS, AIS
(18) = (5) x {[1 + (13)] ^ (15)}
(19) = (7) x {[1 + (14)] ^ (16)}
(20) = (8) x {[1 + (14)] ^ (17)}
(21) = (18) + (19) + (20)
(22) = (21) / (1)
(23) Exhibit 1, Section C, Pages 1-3, Voluntary Liability COI Line (6)
(24) = [(22) / (23)] - 1
(25) NCRB, OCS
(26) = {[1 + (24)] * [1 + (25)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits (30/60/25) Uninsured Motorists
Statewide Rate Review

Voluntary and Ceded Business	NCRB*			OCS		
	Accident Year Ending			Accident Year Ending		
	12/31/2004	12/31/2005	12/31/2006	12/31/2004	12/31/2005	12/31/2006
(1) Earned Premiums at Manual Rates - UMBI	88,786,260	91,518,810	93,519,810	88,786,260	91,518,810	93,519,810
(2) Earned Premiums at Manual Rates - UMPD	11,838,168	12,202,508	12,469,308	11,838,168	12,202,508	12,469,308
(3) Total Earned Premiums at Manual Rates	100,624,428	103,721,318	105,989,118	100,624,428	103,721,318	105,989,118
(4) Incurred Losses and ALAE - UMBI	39,565,863	38,738,983	36,582,765	39,565,863	38,738,983	36,582,765
(5) Incurred Losses and ALAE - UMPD	11,188,673	11,827,267	11,834,991	11,188,673	11,827,267	11,834,991
(6) Loss Development Factor - UMBI	1.009	1.050	1.163	1.009	1.050	1.163
(7) Loss Development Factor - UMPD	0.984	0.967	0.923	0.984	0.967	0.923
(8) ULAE Factor - BI	11.3%	12.8%	12.7%	11.3%	12.8%	12.7%
(9) ULAE Factor - PD	12.6%	12.2%	11.1%	12.6%	12.2%	11.1%
(10) Developed Losses and LAE - UMBI	44,433,137	45,882,451	47,949,067	44,433,137	45,882,451	47,949,067
(11) Developed Losses and LAE - UMPD	12,396,871	12,832,277	12,136,227	12,396,871	12,832,277	12,136,227
(12) Adjustment for Stacking of Policy Limits	1.016	1.000	1.000	1.016	1.000	1.000
(13) Total Developed Losses and LAE	57,739,288	58,714,728	60,085,294	57,739,288	58,714,729	60,085,294
(14) Average Annual Change in Losses and LAE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(15) Years of Trend - Losses and LAE	5.28	4.28	3.28	5.28	4.28	3.28
(16) Total Projected Losses and LAE	57,739,288	58,714,728	60,085,294	57,739,288	58,714,729	60,085,294
(17) Earned Exposures	5,919,084	6,101,254	6,234,654	5,919,084	6,101,254	6,234,654
(18) Developed Incurred Claims - UMBI	6,126	6,199	6,109	6,126	6,199	6,109
(19) Developed Incurred Claims - UMPD	9,235	9,296	8,872	9,235	9,296	8,872
(20) Total Incurred Claims	15,361	15,495	14,981	15,361	15,495	14,981
(21) Projected Losses and LAE Ratio	0.574	0.566	0.567	0.574	0.566	0.567
(22) Permissible Loss and LAE Ratio	0.630	0.630	0.630	0.750	0.750	0.750
(23) Indicated Rate Level Change	-8.9%	-10.2%	-10.0%	-23.5%	-24.5%	-24.4%
(24) Adjustment Factor for Increase in MVR Fee	0.580%	0.435%	0.00%	0.580%	0.435%	0.000%
(25) Final Indicated Rate Level Change	-8.4%	-9.8%	-10.0%	-23.0%	-24.2%	-24.4%
(26) Average Final Indicated Rate Level Change		-9.4%			-23.9%	

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Basic Limits (30/60/25) Uninsured Motorists
Statewide Rate Review

COI

Voluntary and Ceded Business	Accident Year Ending		
	12/31/2004	12/31/2005	12/31/2006
(1) Earned Premiums at Manual Rates - UMBI	88,786,260	91,518,810	93,519,810
(2) Earned Premiums at Manual Rates - UMPD	11,838,168	12,202,508	12,469,308
(3) Total Earned Premiums at Manual Rates	100,624,428	103,721,318	105,989,118
(4) Incurred Losses and ALAE - UMBI	39,565,863	38,738,983	36,582,765
(5) Incurred Losses and ALAE - UMPD	11,188,673	11,827,267	11,834,991
(6) Loss Development Factor - UMBI	1.009	1.050	1.163
(7) Loss Development Factor - UMPD	0.984	0.967	0.923
(8) ULAE Factor - BI	11.3%	12.8%	12.7%
(9) ULAE Factor - PD	12.6%	12.2%	11.1%
(10) Developed Losses and LAE - UMBI	44,433,137	45,882,451	47,949,067
(11) Developed Losses and LAE - UMPD	12,396,871	12,832,277	12,136,227
(12) Adjustment for Stacking of Policy Limits	1.016	1.000	1.000
(13) Total Developed Losses and LAE	57,739,288	58,714,728	60,085,294
(14) Average Annual Change in Losses and LAE	0.0%	0.0%	0.0%
(15) Years of Trend - Losses and LAE	5.28	4.28	3.28
(16) Total Projected Losses and LAE	57,739,288	58,714,728	60,085,294
(17) Earned Exposures	5,919,084	6,101,254	6,234,654
(18) Developed Incurred Claims - UMBI	6,126	6,199	6,109
(19) Developed Incurred Claims - UMPD	9,235	9,296	8,872
(20) Total Incurred Claims	15,361	15,495	14,981
(21) Projected Losses and LAE Ratio	0.574	0.566	0.567
(22) Permissible Loss and LAE Ratio	0.739	0.739	0.739
(23) Indicated Rate Level Change	-22.3%	-23.4%	-23.3%
(24) Adjustment Factor for Increase in MVR Fee	0.580%	0.435%	0.000%
(25) Final Indicated Rate Level Change	-21.8%	-23.1%	-23.3%
(26) Average Final Indicated Rate Level Change		-22.7%	

Notes to Exhibit 1, Section B, Pages 18 and 19

NCRB (North Carolina Rate Bureau)

RB-1, E-1, DR1-36; DOI-5, Exhibit 3, Page 1

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 3, Page 1

COI (Commissioner of Insurance)

(1) NCRB, OCS
(2) NCRB, OCS
(3) = (1) + (2)
(4) NCRB, OCS
(5) NCRB, OCS
(6) NCRB, OCS
(7) NCRB, OCS
(8) NCRB, OCS
(9) NCRB, OCS
(10) = (4) x (6) x [1 + (8)]
(11) = (5) x (7) x [1 + (9)]
(12) NCRB, OCS
(13) = [(8) + (9)] x (10)
(14) NCRB, OCS
(15) NCRB, OCS
(16) = (13) x {[1+(14)] ^ (15)}
(17) NCRB, OCS
(18) NCRB, OCS
(19) NCRB, OCS
(20) = (18) + (19)
(21) = (16) / (3)
(22) Exhibit 1, Section C, Page 5, COI Line (10)
(23) = [(21) / (22)] - 1
(24) NCRB, OCS
(25) = {[1 + (23)] * [1 + (24)]} - 1
(26) Exposure Weighted Average of (25)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
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Statewide Rate Review

Voluntary and Ceded Business	NCRB*			OCS		
	Accident Year Ending			Accident Year Ending		
	12/31/2004	12/31/2005	12/31/2006	12/31/2004	12/31/2005	12/31/2006
(1) Earned Premiums at Manual Rates - UMBI	102,435,721	105,588,313	107,896,986	102,435,721	105,588,313	107,896,986
(2) Earned Premiums at Manual Rates - UMPD	15,685,573	16,168,323	16,521,833	15,685,573	16,168,323	16,521,833
(3) Total Earned Premiums at Manual Rates	118,121,294	121,756,636	124,418,819	118,121,294	121,756,636	124,418,819
(4) Incurred Losses and ALAE - UMBI	51,370,735	48,114,611	45,271,902	51,370,735	48,114,611	45,271,902
(5) Factor to Adjust to Voluntary Business Only	---	---	---	---	---	---
(6) Factor to Adjust for Gas Price	---	---	---	---	---	---
(7) Adjusted Incurred Losses and ALAE - UMBI	---	---	---	---	---	---
(8) Incurred Losses and ALAE - UMPD	11,541,649	12,741,219	11,837,589	11,541,649	12,741,219	11,837,589
(9) Factor to Adjust to Voluntary Business Only	---	---	---	---	---	---
(10) Factor to Adjust for Law Changes	---	---	---	---	---	---
(11) Adjusted Incurred Losses and ALAE-UMBI	---	---	---	---	---	---
(12) Loss Development Factor - UMBI	1.017	1.067	1.226	1.017	1.067	1.226
(13) Loss Development Factor - UMPD	0.982	0.965	0.929	0.982	0.965	0.929
(14) ULAE Factor - BI	11.3%	12.8%	12.7%	11.3%	12.8%	12.7%
(15) ULAE Factor - PD	12.6%	12.2%	11.1%	12.6%	12.2%	11.1%
(16) Developed Losses and LAE - UMBI	58,147,614	57,909,591	62,552,278	58,147,614	57,909,591	62,552,278
(17) Developed Losses and LAE - UMPD	12,761,971	13,795,300	12,217,801	12,761,971	13,795,300	12,217,801
(18) Adjustment for Stacking of Policy Limits	1.016	1.000	1.000	1.016	1.000	1.000
(19) Total Developed Losses and LAE	72,044,138	71,704,891	74,770,079	72,044,138	71,704,891	74,770,078
(20) Average Annual Change in Losses and LAE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(21) Years of Trend - Losses and LAE	5.28	4.28	3.28	5.28	4.28	3.28
(22) Total Projected Losses and LAE	72,044,138	71,704,891	74,770,079	72,044,138	71,704,891	74,770,078
(23) Earned Exposures	5,919,084	6,101,254	6,234,654	5,919,084	6,101,254	6,234,654
(24) Developed Incurred Claims - UMBI	6,126	6,199	6,109	6,126	6,199	6,109
(25) Developed Incurred Claims - UMPD	9,235	9,296	8,872	9,235	9,296	8,872
(26) Total Incurred Claims	15,361	15,495	14,981	15,361	15,495	14,981
(27) Projected Losses and LAE Ratio	0.610	0.589	0.601	0.610	0.589	0.601
(28) Permissible Loss and LAE Ratio	0.630	0.630	0.630	0.750	0.750	0.750
(29) Indicated Rate Level Change	-3.2%	-6.5%	-4.6%	-18.7%	-21.5%	-19.9%
(30) Adjustment Factor for Increase in MVR Fee	0.580%	0.435%	0.000%	0.580%	0.435%	0.000%
(31) Final Indicated Rate Level Change	-2.6%	-6.1%	-4.6%	-18.2%	-21.1%	-19.9%
(32) Average Final Indicated Rate Level Change		-4.5%			-19.7%	

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
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Statewide Rate Review

Exhibit 1
Section B
Page 22

Voluntary and Ceded Business	AIS (000) Accident Year Ending			COI Accident Year Ending		
	12/31/2004	12/31/2005	12/31/2006	12/31/2004	12/31/2005	12/31/2006
(1) Earned Premiums at Manual Rates - UMBI	102,436	105,588	107,897	102,435,721	105,588,313	107,896,986
(2) Earned Premiums at Manual Rates - UMPD	15,686	16,168	16,522	15,685,573	16,168,323	16,521,833
(3) Total Earned Premiums at Manual Rates	118,121	121,757	124,419	118,121,294	121,756,636	124,418,819
(4) Incurred Losses and ALAE - UMBI	51,371	48,115	45,272	51,370,735	48,114,611	45,271,902
(5) Factor to Adjust to Voluntary Business Only	0.757	0.768	0.781	---	---	---
(6) Factor to Adjust for Gas Price	0.980	0.980	0.980	---	---	---
(7) Adjusted Incurred Losses and ALAE - UMBI	38,110	36,213	34,650	---	---	---
(8) Incurred Losses and ALAE - UMPD	11,542	12,741	11,838	11,541,649	12,741,219	11,837,589
(9) Factor to Adjust to Voluntary Business Only	0.840	0.847	0.850	---	---	---
(10) Factor to Adjust for Gas Price	0.980	0.980	0.980	---	---	---
(11) Adjusted Incurred Losses and ALAE-UMBI	9,501	10,576	9,861	---	---	---
(12) Loss Development Factor - UMBI	1.017	1.067	1.226	1.017	1.067	1.226
(13) Loss Development Factor - UMPD	0.982	0.965	0.929	0.982	0.965	0.929
(14) ULAE Factor - BI	11.3%	12.8%	12.7%	11.3%	12.8%	12.7%
(15) ULAE Factor - PD	12.6%	12.2%	11.1%	12.6%	12.2%	11.1%
(16) Developed Losses and LAE - UMBI	43,137	43,585	47,876	58,147,614	57,909,591	62,552,278
(17) Developed Losses and LAE - UMPD	10,506	11,451	10,177	12,761,971	13,795,300	12,217,801
(18) Adjustment for Stacking of Policy Limits	1.016	1.000	1.000	1.016	1.000	1.000
(19) Total Developed Losses and LAE	54,501	55,036	58,054	72,044,138	71,704,891	74,770,079
(20) Average Annual Change in Losses and LAE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(21) Years of Trend - Losses and LAE	5.28	4.28	3.28	5.28	4.28	3.28
(22) Total Projected Losses and LAE	54,501	55,036	58,054	72,044,138	71,704,891	74,770,079
(23) Earned Exposures	---	---	---	5,919,084	6,101,254	6,234,654
(24) Developed Incurred Claims - UMBI	6,309	6,338	6,337	6,126	6,199	6,109
(25) Developed Incurred Claims - UMPD	9,281	9,315	8,881	9,235	9,296	8,872
(26) Total Incurred Claims	15,590	15,653	15,218	15,361	15,495	14,981
(27) Projected Losses and LAE Ratio	0.461	0.452	0.467	0.610	0.589	0.601
(28) Permissible Loss and LAE Ratio	0.727	0.727	0.727	0.739	0.739	0.739
(29) Indicated Rate Level Change	-36.6%	-37.8%	-35.8%	-17.5%	-20.3%	-18.7%
(30) Adjustment Factor for Increase in MVR Fee	---	---	---	0.580%	0.435%	0.000%
(31) Final Indicated Rate Level Change	-36.6%	-37.8%	-35.8%	-17.0%	-20.0%	-18.7%
(32) Average Final Indicated Rate Level Change		-36.7%			-18.6%	

Notes to Exhibit 1, Section B, Pages 21 and 22

NCRB (North Carolina Rate Bureau)
RB-1, E-1, DR1-36; DOI-5, Exhibit 3, Page 1
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 3, Page 1
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-2, Sheet 3
COI (Commissioner of Insurance)

(1) NCRB, OCS, AIS
(2) NCRB, OCS, AIS
(3) = (1) + (2)
(4) NCRB, OCS, AIS
(5) NCRB, OCS
(6) NCRB, OCS
(7) NCRB, OCS
(8) NCRB, OCS, AIS
(9) NCRB, OCS
(10) NCRB, OCS
(11) NCRB, OCS
(12) NCRB, OCS, AIS
(13) NCRB, OCS, AIS
(14) NCRB, OCS, AIS
(15) NCRB, OCS, AIS
(16) = (4) x (12) x [1 + (14)]
(17) = (9) x (13) x [1 + (15)]
(18) NCRB, OCS, AIS
(19) = [(16) + (17)] x (18)
(20) NCRB, OCS, AIS
(21) NCRB, OCS, AIS
(22) = (19) x {[1+(20)] ^ (21)}
(23) NCRB, OCS
(24) NCRB, OCS
(25) NCRB, OCS
(26) = (24) + (25)
(27) = (22) / (3)
(28) Exhibit 1, Section C, Page 5, COI Line (10)
(29) = [(27) / (28)] - 1
(30) NCRB, OCS
(31) = {[1 + (29)] * [1 + (30)]} - 1
(32) Exposure Weighted Average of (31)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Uninsured Motorists Rate Level Change - NCRB
Statewide Rate Review

(1) Limit	(2) Present Rate	(3) Indicated Rate Change	(4) Indicated Rate
30/60/25 UM	17.00	-9.4%	15.00
Total Limits UM	19.96	-4.5%	19.06
Excess Limits UM	2.96	37.22%	4.06

(5) UMPD Limit (000)	(6) Distribution	(7) UMPD Present Rate	(8) UMPD Filed Rate
25	47.4%	2	2
50	41.3%	3	3
100	11.0%	4	4
250	0.2%	6	6
500	0.1%	8	8
750	0.0%	10	10
1000	0.0%	11	11
Total/Average	100.0%	2.65	2.65

(9) UMBI Limit (000)	(10) Distribution	(11) UMBI Present Rate	(12) UMBI Present BL & EL Rate	(13) UMBI Indicated BL & EL Rate	(14) UMBI Indicated Rate	(15) UMBI Rounded Indicated Rate
30/60	29.9%	15	15	13	13	13
50/100	28.5%	16	1	1.4	14.4	14
100/200	0.9%	18	3	4.1	17.1	17
100/300	32.9%	19	4	5.5	18.5	19
300/300	3.1%	22	7	9.6	22.6	23
250/500	3.3%	24	9	12.4	25.4	25
500/500	0.6%	25	10	13.7	26.7	27
500/1000	0.2%	27	12	16.5	29.5	30
1000/1000	0.6%	28	13	17.8	30.8	31
Total/Average	100.0%	17.30				16.23

(16) Limit (000)	(17) Distribution	(18) UMBI & UMPD Present Rate	(19) UMBI & UMPD Indicated Rate	(20) Rate Change
30/60/25	29.9%	17.00	15.00	-11.8%
50/100/PD	28.5%	18.65	16.65	-10.7%
100/200/PD	0.9%	20.65	19.65	-4.8%
100/300/PD	32.9%	21.65	21.65	0.0%
300/300/PD	3.1%	24.65	25.65	4.1%
250/500/PD	3.3%	26.65	27.65	3.8%
500/500/PD	0.6%	27.65	29.65	7.2%
500/1000/PD	0.2%	29.65	32.65	10.1%
1000/1000/PD	0.6%	30.65	33.65	9.8%
Total/Average	100.0%	19.76	18.68	-5.5%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Uninsured Motorists Rate Level Change - OCS
Statewide Rate Review

(1) Limit	(2) Present Rate	(3) Indicated Rate Change	(4) Indicated Rate
30/60/25 UM	17.00	-23.9%	13.00
Total Limits UM	19.96	-19.7%	16.02
Excess Limits UM	2.96	2.07%	3.02

(5) UMPD Limit (000)	(6) Distribution	(7) UMPD Present Rate	(8) UMPD Filed Rate
25	47.4%	2	2
50	41.3%	3	3
100	11.0%	4	4
250	0.2%	6	6
500	0.1%	8	8
750	0.0%	10	10
1000	0.0%	11	11
Total/Average	100.0%	2.65	2.65

(9) UMBI Limit (000)	(10) Distribution	(11) UMBI Present Rate	(12) UMBI Present BL & EL Rate	(13) UMBI Indicated BL & EL Rate	(14) UMBI Indicated Rate	(15) UMBI Rounded Indicated Rate
30/60	29.9%	15	15	11	11	11
50/100	28.5%	16	1	1.02	12.02	12
100/200	0.9%	18	3	3.06	14.06	14
100/300	32.9%	19	4	4.08	15.08	15
300/300	3.1%	22	7	7.14	18.14	18
250/500	3.3%	24	9	9.19	20.19	20
500/500	0.6%	25	10	10.21	21.21	21
500/1000	0.2%	27	12	12.25	23.25	23
1000/1000	0.6%	28	13	13.27	24.27	24
Total/Average	100.0%	17.30				13.30

(16) Limit (000)	(17) Distribution	(18) UMBI & UMPD Present Rate	(19) UMBI & UMPD Indicated Rate	(20) Rate Change
30/60/25	29.9%	17.00	13.00	-23.5%
50/100/PD	28.5%	18.65	14.65	-21.5%
100/200/PD	0.9%	20.65	16.65	-19.4%
100/300/PD	32.9%	21.65	17.65	-18.5%
300/300/PD	3.1%	24.65	20.65	-16.2%
250/500/PD	3.3%	26.65	22.65	-15.0%
500/500/PD	0.6%	27.65	23.65	-14.5%
500/1000/PD	0.2%	29.65	25.65	-13.5%
1000/1000/PD	0.6%	30.65	26.65	-13.1%
Total/Average	100.0%	19.76	15.76	-20.2%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Uninsured Motorists Rate Level Change - COI
Statewide Rate Review

(1) Limit	(2) Present Rate	(3) Indicated Rate Change	(4) Indicated Rate
30/60/25 UM	17.00	-22.7%	13.00
Total Limits UM	19.96	-18.6%	16.25
Excess Limits UM	2.96	9.71%	3.25

(5) UMPD Limit (000)	(6) Distribution	(7) UMPD Present Rate	(8) UMPD Filed Rate
25	47.4%	2	2
50	41.3%	3	3
100	11.0%	4	4
250	0.2%	6	6
500	0.1%	8	8
750	0.0%	10	10
1000	0.0%	11	11
Total/Average	100.0%	2.65	2.65

(9) UMBI Limit (000)	(10) Distribution	(11) UMBI Present Rate	(12) UMBI Present BL & EL Rate	(13) UMBI Indicated BL & EL Rate	(14) UMBI Indicated Rate	(15) UMBI Rounded Indicated Rate
30/60	29.9%	15	15	11	11	11
50/100	28.5%	16	1	1.1	12.1	12
100/200	0.9%	18	3	3.3	14.3	14
100/300	32.9%	19	4	4.4	15.4	15
300/300	3.1%	22	7	7.7	18.7	19
250/500	3.3%	24	9	9.9	20.9	21
500/500	0.6%	25	10	11.0	22.0	22
500/1000	0.2%	27	12	13.2	24.2	24
1000/1000	0.6%	28	13	14.3	25.3	25
Total/Average	100.0%	17.30				13.38

(16) Limit (000)	(17) Distribution	(18) UMBI & UMPD Present Rate	(19) UMBI & UMPD Indicated Rate	(20) Rate Change
30/60/25	29.9%	17.00	13.00	-23.5%
50/100/PD	28.5%	18.65	14.65	-21.5%
100/200/PD	0.9%	20.65	16.65	-19.4%
100/300/PD	32.9%	21.65	17.65	-18.5%
300/300/PD	3.1%	24.65	21.65	-12.2%
250/500/PD	3.3%	26.65	23.65	-11.3%
500/500/PD	0.6%	27.65	24.65	-10.9%
500/1000/PD	0.2%	29.65	26.65	-10.1%
1000/1000/PD	0.6%	30.65	27.65	-9.8%
Total/Average	100.0%	19.76	15.84	-19.9%

Notes to Exhibit 1, Section B, Pages 24, 25 and 26

NCRB (North Carolina Rate Bureau)

RB-1, E-9; DR1-35; DR1-36; DOI-5, Exhibit 3, Page 2; Exhibit 1, Section B, Pages 18 and 21

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 3, Page 2

COI (Commissioner of Insurance)

(2) NCRB, OCS
(3) 30/60/25 UM: Exhibit 1, Section B, Page 19, COI Line (26)
Total Limits UM: Exhibit 1, Section B, Page 22, COI Line (32)
Excess Limits UM = (4) Excess Limits UM / (2) Excess Limits UM
(4) 30/60/25 UM = (2) * [1 + (3)], Round to 0 decimal point
Total Limits UM = (2) * [1 + (3)]
Excess Limits UM = (4) 30/60/25 UM - (4) Total Limits UM
(6) NCRB, OCS
(7) NCRB, OCS
Total/Average = Sum of [(6) * (7)]
(8) NCRB, OCS
Total/Average = Sum of [(6) * (8)]
(10) NCRB, OCS
(11) NCRB, OCS
Total/Average = Sum of [(10) * (11)]
(12) NCRB, OCS
(12) UMBI Excess Limits = (11) UMBI Excess Limits - (11) UMBI 30/60
(13) UMBI 30/60 = (4) 30/60/25 UM - (8) UMPD 25
UMBI Excess Limits = (12) Excess Limits * [1 + (3) Excess Limits UM]
(14) UMBI 30/60 = (13) UMBI 30/60
UMBI Increased Limits = (14) UMBI 30/60 + (13) UMBI Excess Limits
(15) Round to 0 decimal point (14)
Total/Average = Sum of [(10) * (15)]
(17) NCRB, OCS
(18) NCRB, OCS
30/60/25 = (11) UMBI 30/60 + (7) UMPD 25
Increased Limits = (11) UMBI Increased Limits + (7) UMPD Total/Average
Total/Average = Sum of [(17) * (18)]
(19) 30/60/25 = (15) UMBI 30/60 + (8) UMPD 25
Increased Limits = (15) UMBI Increased Limits + (8) UMPD Total/Average
Total/Average = Sum of [(17) * (19)]
(20) = [(19) - (18)] - 1

North Carolina
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Total Limits Underinsured Motorists
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Voluntary and Ceded Business	NCRB* Accident Year Ending 12/31/2004	NCRB* 12/31/2005	NCRB* 12/31/2006	OCS Accident Year Ending 12/31/2004	OCS 12/31/2005	OCS 12/31/2006
(1) Earned Premiums at Manual Rates	75,414,867	77,735,848	79,435,482	75,414,867	77,735,848	79,435,482
(2) Incurred Losses and ALAE - UIMBI	57,688,846	48,417,662	35,009,395	57,688,846	48,417,662	35,009,395
(3) Factor to Adjust to Voluntary Business Only	---	---	---	---	---	---
(4) Factor to Adjust for Gas Price	---	---	---	---	---	---
(5) Adjusted Incurred Losses and ALAE - UIMBI	---	---	---	---	---	---
(6) Loss Development Factor - UIMBI	1.094	1.307	2.157	1.094	1.307	2.157
(7) ULAE Factor - BI	11.3%	12.8%	12.7%	11.3%	12.8%	12.7%
(8) Developed Losses and LAE - UIMBI	70,243,208	71,381,965	85,105,704	70,243,208	71,381,965	85,105,704
(9) Average Annual Change in Losses and LAE	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%
(10) Years of Trend - Losses and LAE	5.28	4.28	3.28	5.28	4.28	3.28
(11) Projected Losses and LAE	100,377,544	95,366,305	106,211,919	90,883,247	87,958,680	99,875,638
(12) Earned Exposures	3,844,061	3,962,368	4,049,003	---	---	---
(13) Developed Incurred Claims - UIMBI	1,419	1,298	1,457	1,419	1,298	1,457
(14) Projected Losses and LAE Ratio	1.331	1.227	1.337	1.205	1.132	1.257
(15) Permissible Loss and LAE Ratio	0.630	0.630	0.630	0.750	0.750	0.750
(16) Indicated Rate Level Change	111.3%	94.8%	112.2%	60.7%	50.9%	67.7%
(17) Adjustment Factor for Increase in MVR Fee	0.580%	0.435%	0.000%	0.580%	0.435%	0.000%
(18) Final Indicated Rate Level Change	112.5%	95.6%	112.2%	61.6%	51.6%	67.7%
(19) Average Indicated Rate Level Change		106.7%			60.2%	
(20) Selected Final Rate Level Change		106.9%			60.2%	

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Total Limits Underinsured Motorists
Statewide Rate Review

Voluntary and Ceded Business	AIS (000) Accident Year Ending 12/31/2004	AIS 12/31/2005	AIS 12/31/2006	COI Accident Year Ending 12/31/2004	COI 12/31/2005	COI 12/31/2006
(1) Earned Premiums at Manual Rates	75,415	77,736	79,435	75,414,867	77,735,848	79,435,482
(2) Incurred Losses and ALAE - UIMBI	57,689	48,418	35,009	57,688,846	48,417,662	35,009,395
(3) Factor to Adjust to Voluntary Business Only	0.772	0.785	0.795	---	---	---
(4) Factor to Adjust for Gas Price	0.980	0.980	0.980	---	---	---
(5) Adjusted Incurred Losses and ALAE - UIMBI	43,645	37,248	27,276	---	---	---
(6) Loss Development Factor - UIMBI	1.094	1.307	2.157	1.094	1.307	2.157
(7) ULAE Factor - BI	11.3%	12.8%	12.7%	11.3%	12.8%	12.7%
(8) Developed Losses and LAE - UIMBI	53,143	54,914	66,306	70,243,208	71,381,965	85,105,704
(9) Average Annual Change in Losses and LAE	5.0%	5.0%	5.0%	2.0%	2.0%	2.0%
(10) Years of Trend - Losses and LAE	5.28	4.28	3.28	5.28	4.28	3.28
(11) Projected Losses and LAE	68,759	67,667	77,813	77,969,961	77,663,578	90,807,786
(12) Earned Exposures	---	---	---	3,844,061	3,962,368	4,049,003
(13) Developed Incurred Claims - UIMBI	1,429	1,136	867	1,419	1,298	1,457
(14) Projected Losses and LAE Ratio	0.912	0.870	0.980	1.034	0.999	1.143
(15) Permissible Loss and LAE Ratio	0.727	0.727	0.727	0.739	0.739	0.739
(16) Indicated Rate Level Change	25.4%	19.7%	34.7%	39.9%	35.2%	54.7%
(17) Adjustment Factor for Increase in MVR Fee	0.000%	0.000%	0.000%	0.580%	0.435%	0.000%
(18) Final Indicated Rate Level Change	25.4%	19.7%	34.7%	40.7%	35.8%	54.7%
(19) Average Indicated Rate Level Change		26.6%			43.8%	
(20) Selected Final Rate Level Change		26.6%			43.8%	

* NCRB displayed in loss ratio methodology for comparison.

Notes to Exhibit 1, Section B, Pages 28 and 29

NCRB (North Carolina Rate Bureau)
RB-1, E-11; DR1-38; DOI-5, Exhibit 4, Page 1
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 4, Page 1
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-2, Sheet 4
COI (Commissioner of Insurance)

(1) NCRB, OCS, AIS
(2) NCRB, OCS, AIS
(3) NCRB, OCS
(4) NCRB, OCS
(6) NCRB, OCS, AIS
(7) NCRB, OCS, AIS
(8) = (2) * (6) * [1 + (7)]
(9) OCS, AIS
(10) NCRB, OCS, AIS
(11) = (8) * {[1 + (9)] ^ (10)}
(12) NCRB, OCS
(13) NCRB, OCS
(14) = [(11) / (1)] - 1
(15) Exhibit 1, Section C, Page 5, COI Line (10)
(16) = [(14) / (15)] - 1
(17) NCRB, OCS
(18) = {[1 + (16)] * [1 + (17)]} - 1
(19) Exposure Weighted Average of (18)
(20) = (19)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Underinsured Motorists Rate Level Change - NCRB
Statewide Rate Review

(1) Indicated Rate Change 106.9%

(2) Limit (000)	(3) % Earned Exposure	(4) Present Rate	(5) Filed Rate	(6) Effective Rate Change
50/100	40.4%	5	10	100.0%
100/200	1.3%	18	37	105.6%
100/300	46.9%	25	52	108.0%
300/300	4.7%	38	79	107.9%
250/500	4.8%	47	97	106.4%
500/500	0.8%	72	149	106.9%
500/1000	0.3%	82	170	107.3%
1000/1000	0.8%	95	197	107.4%
Total/Average	100.0%	19.60	40.556	106.9%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2005
Indicated Underinsured Motorists Rate Level Change - OCS
Statewide Rate Review

(1) Indicated Rate Change 60.2%

(2) Limit (000)	(3) % Earned Exposure	(4) Present Rate	(5) Indicated Rate	(6) Effective Rate Change
50/100	40.4%	5	8	60.0%
100/200	1.3%	18	29	61.1%
100/300	46.9%	25	40	60.0%
300/300	4.7%	38	61	60.5%
250/500	4.8%	47	75	59.6%
500/500	0.8%	72	115	59.7%
500/1000	0.3%	82	131	59.8%
1000/1000	0.8%	95	152	60.0%
Total/Average	100.0%	19.60	31.37	60.0%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2005
Indicated Underinsured Motorists Rate Level Change - COI
Statewide Rate Review

(1) Indicated Rate Change 43.8%

(2) Limit (000)	(3) % Earned Exposure	(4) Present Rate	(5) Indicated Rate	(6) Effective Rate Change
50/100	40.4%	5	7	40.0%
100/200	1.3%	18	26	44.4%
100/300	46.9%	25	36	44.0%
300/300	4.7%	38	55	44.7%
250/500	4.8%	47	68	44.7%
500/500	0.8%	72	104	44.4%
500/1000	0.3%	82	118	43.9%
1000/1000	0.8%	95	137	44.2%
Total/Average	100.0%	19.60	28.18	43.8%

Notes to Exhibit 1, Section B, Pages 31, 32 and 33

NCRB (North Carolina Rate Bureau)

RB-1, E-12; DR1-46; DOI-5, Exhibit 4, Page 2

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 4, Page 2

COI (Commissioner of Insurance)

(1) Exhibit 1, Section B, Page 29, COI Line (20)
(3) NCRB, OCS
(4) NCRB, OCS
(5) = (1) * (4)
(6) = [(5) / (4)] - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Physical Damage Coverage - Comprehensive
Statewide Rate Review

Standard Business

	Accident Year Ending 12/31/2006			
	NCRB*	OCS	AIS (000)	COI
(1) Earned Premiums at Manual Rates	452,376,856	344,783,980	344,784	344,783,980
(2) Model Year Trend Factor	1.129	1.129	1.129	1.129
(3) Symbol Annual Trend	1.0%	1.5%	1.0%	1.0%
(4) Trend Period in Years	3.28	3.28	3.28	3.28
(5) Symbol Trend Factor	1.033	1.050	1.033	1.033
(6) Trended Premium at Manual Rates	527,587,675	408,742,352	402,107	402,106,730
(7) Reported Paid Losses Excluding Excess Wind & Water	275,408,543	187,599,411	187,599	187,599,411
(8) Paid to Incurred Factor	1.002	1.002	1.002	1.002
(9) Excess Wind and Water Factor	1.062	1.062	1.062	1.062
(10) Factor to Adjust for Gas Price	---	---	1.00	---
(11) Incurred Losses	293,068,840	199,629,036	199,629	199,629,036
(12) Loss Adjustment Expense (LAE) Factor	0.126	0.126	0.126	0.126
(13) Loss Adjustment Expense	36,926,674	25,153,259	25,153	25,153,259
(14) Earned Exposures	4,616,310	3,574,994	---	3,574,994
(15) Paid Claims	284,322	210,850	---	210,850
(16) General and Other Acquisition Expenses (G&OA)	77,121,061	47,584,490	49,076	47,584,490
(17) Average Annual Change in Losses	-2.0%	-5.0%	-5.0%	-3.5%
(18) Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(19) Years of Trend - Losses	3.28	3.28	3.28	3.28
(20) Years of Trend - LAE	3.28	3.28	3.28	3.28
(21) Years of Trend - G&OA Expenses	3.00	3.00	3.00	3.00
(22) Projected Losses	274,312,434	168,716,336	168,716	177,669,842
(23) Projected LAE	41,727,142	28,426,381	27,275	28,423,183
(24) Projected G&OA Expenses	86,221,346	53,217,869	52,849	53,199,460
(25) Projected Loss, LAE and G&OA Expenses	402,260,922	250,360,586	248,841	259,292,485
(26) Projected Loss, LAE and G&AO Expense Ratio	0.762	0.613	0.619	0.645
(27) Permissible Loss, LAE and G&OA Expense Ratio	0.769	0.872	0.865	0.858
(28) Indicated Rate Level Change	-0.9%	-29.8%	-28.4%	-24.8%
(29) Adjustment Factor for Increase in MVR Fee	0.000%	0.000%	0.000%	0.000%
(30) Final Indicated Rate Level Change	-0.9%	-29.8%	-28.4%	-24.8%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Physical Damage Coverage - Comprehensive
Statewide Rate Review

Standard Business

Accident Year Ending 12/31/2005

		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	440,350,185	352,084,942	352,085	352,084,942
(2)	Model Year Trend Factor	1.129	1.129	1.129	1.129
(3)	Symbol Annual Trend	1.0%	1.5%	1.0%	1.0%
(4)	Trend Period in Years	3.28	3.28	3.28	3.28
(5)	Symbol Trend Factor	1.033	1.050	1.033	1.033
(6)	Trended Premium at Manual Rates	513,561,486	417,397,662	410,622	410,621,528
(7)	Reported Paid Losses Excluding Excess Wind & Water	236,375,680	169,333,556	169,334	169,333,556
(8)	Paid to Incurred Factor	0.996	0.996	0.996	0.996
(9)	Excess Wind and Water Factor	1.062	1.062	1.062	1.062
(10)	Factor to Adjust for Gas Price	---	---	1.000	---
(11)	Incurred Losses	250,026,848	179,112,908	179,113	179,112,908
(12)	Loss Adjustment Expense (LAE) Factor	0.159	0.161	0.161	0.161
(13)	Loss Adjustment Expense	39,754,269	28,837,178	28,837	28,837,178
(14)	Earned Exposures	4,475,373	3,632,791	---	3,632,791
(15)	Paid Claims	275,985	215,214	---	215,214
(16)	General and Other Acquisition Expenses (G&OA)	63,021,370	46,908,361	43,355	46,908,361
(17)	Average Annual Change in Losses	-2.8%	-5.1%	-5.1%	-3.9%
(18)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(19)	Years of Trend - Losses	4.28	4.28	4.28	4.28
(20)	Years of Trend - LAE	4.28	4.28	4.28	4.28
(21)	Years of Trend - G&OA Expenses	4.00	4.00	4.00	4.00
(22)	Projected Losses	221,523,787	143,161,511	143,162	150,992,181
(23)	Projected LAE	46,631,758	33,828,087	32,052	33,826,010
(24)	Projected G&OA Expenses	73,167,811	54,455,240	47,856	54,460,607
(25)	Projected Loss, LAE and G&OA Expenses	341,323,356	231,444,837	223,069	239,278,798
(26)	Projected Loss, LAE and G&AO Expense Ratio	0.665	0.554	0.543	0.583
(27)	Permissible Loss, LAE and G&OA Expense Ratio	0.770	0.873	0.866	0.859
(28)	Indicated Rate Level Change	-13.6%	-36.5%	-37.3%	-32.1%
(29)	Adjustment Factor for Increase in MVR Fee	0.435%	0.435%	0.000%	0.435%
(30)	Final Indicated Rate Level Change	-13.2%	-36.2%	-37.3%	-31.8%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Physical Damage Coverage - Comprehensive
Statewide Rate Review

Standard Business

		Accident Year Ending 12/31/2004			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	431,633,281	355,023,397	355,023	355,023,397
(2)	Model Year Trend Factor	1.129	1.129	1.129	1.129
(3)	Symbol Annual Trend	1.0%	1.5%	1.0%	1.0%
(4)	Trend Period in Years	3.28	3.28	3.28	3.28
(5)	Symbol Trend Factor	1.033	1.050	1.033	1.033
(6)	Trended Premium at Manual Rates	503,395,335	420,862,486	414,048	414,048,522
(7)	Reported Paid Losses Excluding Excess Wind & Water	243,046,072	182,188,003	182,188	182,188,003
(8)	Paid to Incurred Factor	0.997	0.997	0.997	0.997
(9)	Excess Wind and Water Factor	1.062	1.062	1.062	1.062
(10)	Factor to Adjust for Gas Price	---	---	1.000	---
(11)	Incurred Losses	257,340,584	192,903,208	192,903	192,903,208
(12)	Loss Adjustment Expense (LAE) Factor	0.152	0.152	0.152	0.152
(13)	Loss Adjustment Expense	39,115,769	29,321,288	29,321	29,321,288
(14)	Earned Exposures	4,356,399	3,637,440	---	3,637,440
(15)	Paid Claims	296,755	239,551	---	239,551
(16)	General and Other Acquisition Expenses (G&OA)	60,652,205	45,110,878	43,401	45,110,878
(17)	Average Annual Change in Losses	-4.7%	-6.5%	-6.5%	-5.5%
(18)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(19)	Years of Trend - Losses	5.28	5.28	5.28	5.28
(20)	Years of Trend - LAE	5.28	5.28	5.28	5.28
(21)	Years of Trend - G&OA Expenses	5.00	5.00	5.00	5.00
(22)	Projected Losses	199,696,293	135,277,247	135,277	143,134,180
(23)	Projected LAE	47,643,007	35,703,029	33,405	35,713,329
(24)	Projected G&OA Expenses	73,085,907	54,358,573	49,104	54,358,608
(25)	Projected Loss, LAE and G&OA Expenses	320,425,207	225,338,849	217,786	233,206,117
(26)	Projected Loss, LAE and G&AO Expense Ratio	0.637	0.535	0.526	0.563
(27)	Permissible Loss, LAE and G&OA Expense Ratio	0.774	0.877	0.870	0.863
(28)	Indicated Rate Level Change	-17.7%	-38.9%	-39.6%	-34.8%
(29)	Adjustment Factor for Increase in MVR Fee	0.580%	0.580%	0.000%	0.580%
(30)	Final Indicated Rate Level Change	-17.2%	-38.6%	-39.6%	-34.4%

* NCRB displayed in loss ratio methodology for comparison.

Notes to Exhibit 1, Section B, Pages 35, 36 and 37

NCRB (North Carolina Rate Bureau)
RB-1, C-7, C-9 and C-12; RB-4; DOI-5, Exhibit 2, Pages 1-3
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 2, Pages 1-3
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-2, Sheets 2a-2c
COI (Commissioner of Insurance)
(1) RB4, OCS, AIS
(2) NCRB, OCS, AIS
(3) NCRB, AIS
(4) NCRB, OCS, AIS
(5) = [1 + (3)] ^ (4)
(6) = (1) * (2) * (5)
(7) OCS, AIS
(8) NCRB, OCS, AIS
(9) NCRB, OCS, AIS
(10) NCRB, OCS
(11) OCS, AIS
(12) OCS, AIS
(13) =(11) x (12)
(14) OCS
(15) OCS
(16) OCS
(17) OCS, AIS
(18) NCRB, OCS
(19) NCRB, OCS, AIS
(20) NCRB, OCS, AIS
(21) NCRB, OCS, AIS
(22) = (11) x {[1 + (17)] ^ (19)}
(23) = (13) x {[1 + (18)] ^ (20)}
(24) = (16) x {[1 + (18)] ^ (21)}
(25) = (22) + (23) + (24)
(26) = (25) / (6)
(27) Exhibit 1, Section C, Pages 1-3, Standard Physical Damage COI Line (6)
(28) = [(26) / (27)] - 1
(29) NCRB, OCS
(30) = {[1 + (28)] * [1 + (29)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Physical Damage Coverage - Collision
Statewide Rate Review

Standard Business

		Accident Year Ending 12/31/2006			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	954,177,755	700,085,917	700,086	700,085,917
(2)	Model Year Trend Factor	1.151	1.151	1.151	1.151
(3)	Symbol Annual Trend	0.00%	1.00%	0.00%	0.00%
(4)	Trend Period in Years	3.28	3.28	3.28	3.28
(5)	Symbol Trend Factor	1.000	1.033	1.000	1.000
(6)	Trended Premium at Manual Rates	1,098,258,596	832,531,685	805,799	805,798,890
(7)	Reported Paid Losses Excluding Excess Wind & Water	607,249,609	384,643,128	384,643	384,643,128
(8)	Paid to Incurred Factor	1.002	1.002	1.002	1.002
(9)	Excess Wind and Water Factor	---	---	1.000	---
(10)	Factor to Adjust for Gas Price	---	---	0.980	---
(11)	Incurred Losses	608,464,108	385,412,414	377,704	385,412,414
(12)	Loss Adjustment Expense (LAE) Factor	0.126	0.126	0.126	0.126
(13)	Loss Adjustment Expense	76,666,478	48,561,964	47,591	48,561,964
(14)	Earned Exposures	4,279,009	3,293,874	---	3,293,874
(15)	Paid Claims	205,843	132,592	---	132,592
(16)	General and Other Acquisition Expenses (G&OA)	164,133,118	96,286,161	99,305	96,286,161
(17)	Average Annual Change in Losses	3.0%	2.5%	0.5%	3.0%
(18)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(19)	Years of Trend - Losses	3.28	3.28	3.28	3.28
(20)	Years of Trend - LAE	3.28	3.28	3.28	3.28
(21)	Years of Trend - G&OA Expenses	3.00	3.00	3.00	3.00
(22)	Projected Losses	670,527,447	417,926,565	383,934	424,724,480
(23)	Projected LAE	86,633,120	54,881,196	51,606	54,875,019
(24)	Projected G&OA Expenses	183,500,826	107,685,178	106,941	107,647,928
(25)	Projected Loss, LAE and G&OA Expenses	940,661,393	580,492,939	542,480	587,247,427
(26)	Projected Loss, LAE and G&AO Expense Ratio	0.857	0.697	0.673	0.729
(27)	Permissible Loss, LAE and G&OA Expense Ratio	0.769	0.872	0.865	0.858
(28)	Indicated Rate Level Change	11.4%	-20.0%	-22.3%	-15.0%
(29)	Adjustment Factor for Increase in MVR Fee	0.000%	0.000%	0.000%	0.000%
(30)	Final Indicated Rate Level Change	11.4%	-20.0%	-22.3%	-15.0%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Physical Damage Coverage - Collision
Statewide Rate Review

Standard Business

		Accident Year Ending 12/31/2005			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	921,855,037	711,137,143	711,137	711,137,143
(2)	Model Year Trend Factor	1.151	1.151	1.151	1.151
(3)	Symbol Annual Trend	0.00%	1.00%	0.000	0.00%
(4)	Trend Period in Years	3.28	3.28	3.28	3.28
(5)	Symbol Trend Factor	1.000	1.033	1.000	1.000
(6)	Trended Premium at Manual Rates	1,061,055,148	845,673,637	818,519	818,518,852
(7)	Reported Paid Losses Excluding Excess Wind & Water	578,484,457	388,300,846	388,301	388,300,846
(8)	Paid to Incurred Factor	0.996	0.996	0.996	0.996
(9)	Excess Wind and Water Factor	---	---	1.000	---
(10)	Factor to Adjust for Gas Price	---	---	0.980	---
(11)	Incurred Losses	576,170,519	386,747,643	379,013	386,747,643
(12)	Loss Adjustment Expense (LAE) Factor	0.159	0.161	0.161	0.161
(13)	Loss Adjustment Expense	91,611,113	62,266,371	61,021	62,266,371
(14)	Earned Exposures	4,160,350	3,354,796	---	3,354,796
(15)	Paid Claims	205,277	138,685	---	138,685
(16)	General and Other Acquisition Expenses (G&OA)	137,375,929	97,706,574	90,301	97,706,574
(17)	Average Annual Change in Losses	3.0%	2.6%	1.1%	3.0%
(18)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(19)	Years of Trend - Losses	4.28	4.28	4.28	4.28
(20)	Years of Trend - LAE	4.28	4.28	4.28	4.28
(21)	Years of Trend - G&OA Expenses	4.00	4.00	4.00	4.00
(22)	Projected Losses	653,953,539	431,656,594	397,181	438,958,575
(23)	Projected LAE	107,459,836	73,042,937	67,823	73,038,453
(24)	Projected G&OA Expenses	159,493,454	113,426,152	99,675	113,437,332
(25)	Projected Loss, LAE and G&OA Expenses	920,906,829	618,125,683	564,680	625,434,360
(26)	Projected Loss, LAE and G&AO Expense Ratio	0.868	0.731	0.690	0.764
(27)	Permissible Loss, LAE and G&OA Expense Ratio	0.770	0.873	0.866	0.859
(28)	Indicated Rate Level Change	12.7%	-16.3%	-20.3%	-11.1%
(29)	Adjustment Factor for Increase in MVR Fee	0.440%	0.440%	0.000%	0.440%
(30)	Final Indicated Rate Level Change	13.2%	-15.9%	-20.3%	-10.7%

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Physical Damage Coverage - Collision
Statewide Rate Review

Standard Business

		Accident Year Ending 12/31/2004			
		NCRB*	OCS	AIS (000)	COI
(1)	Earned Premiums at Manual Rates	902,682,493	717,097,039	717,097	717,097,039
(2)	Model Year Trend Factor	1.151	1.151	1.151	1.151
(3)	Symbol Annual Trend	0.00%	1.00%	0.000	0.00%
(4)	Trend Period in Years	3.28	3.28	3.28	3.28
(5)	Symbol Trend Factor	1.000	1.033	1.000	1.000
(6)	Trended Premium at Manual Rates	1,038,987,549	852,761,056	825,379	825,378,692
(7)	Reported Paid Losses Excluding Excess Wind & Water	571,461,740	398,341,478	398,341	398,341,478
(8)	Paid to Incurred Factor	0.997	0.997	0.997	0.997
(9)	Excess Wind and Water Factor	---	---	1.000	---
(10)	Factor to Adjust for Gas Price	---	---	0.980	---
(11)	Incurred Losses	569,747,355	397,146,454	389,203	397,146,454
(12)	Loss Adjustment Expense (LAE) Factor	0.152	0.152	0.152	0.152
(13)	Loss Adjustment Expense	86,601,598	60,366,261	59,159	60,366,261
(14)	Earned Exposures	4,060,167	3,368,504	---	3,368,504
(15)	Paid Claims	205,825	143,443	---	143,443
(16)	General and Other Acquisition Expenses (G&OA)	132,468,721	94,241,266	90,672	94,241,266
(17)	Average Annual Change in Losses	1.6%	1.2%	0.0%	1.5%
(18)	Average Annual Change in Expenses	3.8%	3.8%	2.5%	3.8%
(19)	Years of Trend - Losses	5.28	5.28	5.28	5.28
(20)	Years of Trend - LAE	5.28	5.28	5.28	5.28
(21)	Years of Trend - G&OA Expenses	5.00	5.00	5.00	5.00
(22)	Projected Losses	619,315,375	422,964,380	389,203	429,712,463
(23)	Projected LAE	105,480,746	73,504,902	67,397	73,526,106
(24)	Projected G&OA Expenses	159,624,809	113,560,652	102,587	113,560,726
(25)	Projected Loss, LAE and G&OA Expenses	884,420,930	610,029,935	559,187	616,799,295
(26)	Projected Loss, LAE and G&AO Expense Ratio	0.851	0.715	0.677	0.747
(27)	Permissible Loss, LAE and G&OA Expense Ratio	0.774	0.877	0.870	0.863
(28)	Indicated Rate Level Change	9.9%	-18.4%	-22.1%	-13.4%
(29)	Adjustment Factor for Increase in MVR Fee	0.580%	0.580%	0.000%	0.580%
(30)	Final Indicated Rate Level Change	10.5%	-18.0%	-22.1%	-12.9%

* NCRB displayed in loss ratio methodology for comparison.

Notes to Exhibit 1, Section B, Pages 39, 40 and 41

NCRB (North Carolina Rate Bureau)

RB-1, C-7, C-9 and C-12; RB-4; DOI-5, Exhibit 2, Pages 1-3

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 2, Pages 1-3

AIS (Allan I. Schwartz)

DOI-4, Schedule AIS-2, Sheets 2a-2c

COI (Commissioner of Insurance)

(1) RB4, OCS, AIS
(2) NCRB, OCS, AIS
(3) NCRB, AIS
(4) NCRB, OCS, AIS
(5) = [1 + (3)] ^ (4)
(6) = (1) * (2) * (5)
(7) OCS, AIS
(8) NCRB, OCS, AIS
(9) NCRB, OCS, AIS
(10) NCRB, OCS
(11) OCS, AIS
(12) OCS, AIS
(13) =(11) x (12)
(14) OCS
(15) OCS
(16) OCS
(17) NCRB
(18) NCRB, OCS
(19) NCRB, OCS, AIS
(20) NCRB, OCS, AIS
(21) NCRB, OCS, AIS
(22) = (11) x {[1 + (17)] ^ (19)}
(23) = (13) x {[1 + (18)] ^ (20)}
(24) = (16) x {[1 + (18)] ^ (21)}
(25) = (22) + (23) + (24)
(26) = (25) / (6)
(27) Exhibit 1, Section C, Pages 1-3, Standard Physical Damage COI Line (6)
(28) = [(26) / (27)] - 1
(29) NCRB, OCS
(30) = {[1 + (28)] * [1 + (29)]} - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Bodily Injury Increased Limits Review
Statewide Rate Review

Voluntary and Ceded Business - For NCRB
Voluntary Business - For OCS

		NCRB				OCS			
		12/31/2004	12/31/2005	12/31/2006	3 Years Combined	12/31/2004	12/31/2005	12/31/2006	3 Years Combined
(1)	Basic Limits Losses	595,341,154	577,570,259	554,842,156	1,727,753,569	324,771,196	323,279,560	319,460,407	967,511,163
(2)	Basic Limits Loss Development Factor	1.016	1.050	1.121		1.016	1.050	1.121	
(3)	Basic Limits Gas Adjustment Factor	---	---	---		---	---	---	
(4)	Basic Limits Claims Cost Trend	5.0%	5.0%	5.0%		5.0%	5.0%	5.0%	
(5)	Years of Trend	5.28	4.28	3.28		5.28	4.28	3.28	
(6)	Basic Limits Trend Factor	1.294	1.232	1.174		1.294	1.232	1.174	
(7)	Basic Limits Losses, Trended and Developed	782,697,397	747,144,887	730,202,239	2,260,044,523	426,924,139	418,270,991	420,265,320	1,265,460,451
(8)	Total Limits Losses	724,936,618	690,816,020	652,602,054	2,068,354,692	432,067,394	413,602,002	396,747,441	1,242,416,837
(9)	Total Limits Loss Development Factor	1.017	1.066	1.175		1.017	1.066	1.175	
(10)	Total Limits Gas Adjustment Factor	---	---	---		---	---	---	
(11)	Total Limits Claims Cost Trend	6.0%	6.0%	6.0%		6.0%	6.0%	6.0%	
(12)	Years of Trend	5.28	4.28	3.28		5.28	4.28	3.28	
(13)	Total Limits Trend Factor	1.360	1.283	1.211		1.360	1.283	1.211	
(14)	Total Limits Losses, Trended and Developed	1,002,674,335	944,813,873	928,603,778	2,876,091,986	597,705,724	565,781,757	564,358,719	1,727,846,200
(15)	Indicated Average Increased Limits Factor	1.281	1.265	1.272	1.273	1.400	1.353	1.343	1.365
(16)	Average Increased Limits Factor	1.194	1.197	1.202	1.198	1.250	1.253	1.254	1.252
(17)	Indicated Change to Excess Limits Increments				37.9%				44.8%
(18)	Indicated Total Limits Change				6.3%				9.0%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Bodily Injury Increased Limits Review
Statewide Rate Review

	Voluntary Business	AIS (000) 12/31/2004	AIS 12/31/2005	AIS 12/31/2006	AIS 3 Years Combined	COI 12/31/2004	COI 12/31/2005	COI 12/31/2006	COI 3 Years Combined
(1)	Basic Limits Losses	324,771	323,280	319,460	967,511	324,771,196	323,279,560	319,460,407	967,511,163
(2)	Basic Limits Loss Development Factor	1.016	1.050	1.121		1.016	1.050	1.121	
(3)	Basic Limits Gas Adjustment Factor	0.980	0.980	0.980		—	—	—	
(4)	Basic Limits Claims Cost Trend	5.0%	5.0%	5.0%		5.0%	5.0%	5.0%	
(5)	Years of Trend	5.28	4.28	3.28		5.28	4.28	3.28	
(6)	Basic Limits Trend Factor	1.294	1.232	1.174		1.294	1.232	1.174	
(7)	Basic Limits Losses, Trended and Developed	418,385	409,906	411,859	1,240,151	426,977,990	418,194,439	420,427,146	1,265,599,575
(8)	Total Limits Losses	432,067	413,602	396,747	1,242,416	432,067,394	413,602,002	396,747,441	1,242,416,837
(9)	Total Limits Loss Development Factor	1.017	1.066	1.175		1.017	1.066	1.175	
(10)	Total Limits Gas Adjustment Factor	0.980	0.980	0.980		—	—	—	
(11)	Total Limits Claims Cost Trend	6.0%	6.0%	6.0%		5.0%	5.0%	5.0%	
(12)	Years of Trend	5.28	4.28	3.28		5.28	4.28	3.28	
(13)	Total Limits Trend Factor	1.360	1.283	1.211		1.294	1.232	1.174	
(14)	Total Limits Losses, Trended and Developed	585,751	554,466	553,071	1,693,288	568,599,826	543,188,472	547,293,257	1,659,081,555
(15)	Indicated Average Increased Limits Factor	1.400	1.353	1.343	1.365	1.332	1.299	1.302	1.311
(16)	Average Increased Limits Factor	1.250	1.253	1.255	1.253	1.250	1.253	1.254	1.252
(17)	Indicated Change to Excess Limits Increments				44.61%				23.4%
(18)	Indicated Total Limits Change				9.03%				4.7%

Notes to Exhibit 1, Section B, Pages 43 and 44

NCRB (North Carolina Rate Bureau)
RB-1, G-2; DOI-5, Exhibit 5 Page 1
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 5 Page 1
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-2, Sheet 6
COI (Commissioner of Insurance)
(1) DR1-60, OCS, AIS
(2) NCRB, OCS, AIS
(3) NCRB, OCS
(4) NCRB, OCS, AIS
(5) NCRB, OCS, AIS
(6) =[1 + (4)] ^ (5)
(7) =(1) x (2) x (6)
(8) DR1-60, OCS, AIS
(9) NCRB, OCS, AIS
(10) NCRB, OCS
(11) NCRB, OCS, AIS
(12) NCRB, OCS, AIS
(13) =[1 + (11)] ^ (12)
(14) =(8) x (9) x (13)
(15) =(14) / (7)
(16) DR1-60, OCS, AIS
(17) ={[(15) - 1] / (16)-1]} - 1
(18) =[(15) / (16)] - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Property Damage Increased Limits Review
Statewide Rate Review

Voluntary and Ceded Business - For NCRB
Voluntary Business - For OCS

		NCRB				OCS			
		12/31/2004	12/31/2005	12/31/2006	3 Years Combined	12/31/2004	12/31/2005	12/31/2006	3 Years Combined
(1)	Basic Limits Losses	559,572,995	568,284,887	583,393,339	1,711,251,221	340,812,724	352,657,004	367,232,972	1,060,702,700
(2)	Basic Limits Loss Development Factor	1.001	1.009	1.029		1.001	1.009	1.029	
(3)	Basic Limits Losses Developed	560,132,568	573,399,451	600,311,746	1,733,843,765	341,153,537	355,830,917	377,882,728	1,074,867,182
(4)	Total Limits Losses	563,090,152	572,325,437	587,544,521	1,722,960,110	343,296,757	355,746,113	370,351,274	1,069,394,144
(5)	Total Limits Loss Development Factor	1.001	1.008	1.027		1.001	1.008	1.027	
(6)	Total Limits Losses Developed	563,653,242	576,904,040	603,408,223	1,743,965,505	343,640,054	358,592,082	380,350,758	1,082,582,894
(7)	Indicated Average Increased Limits Factor	1.006	1.006	1.005	1.006	1.007	1.008	1.007	1.007
(8)	Average Increased Limits Factor	1.010	1.010	1.011	1.010	1.012	1.013	1.013	1.013
(9)	Indicated Change to Excess Limits Increments				-40.0%				-43.3%
(10)	Indicated Total Limits Change				-0.4%				-0.5%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Property Damage Increased Limits Review
Statewide Rate Review

	Voluntary Business	AIS (000) 12/31/2004	AIS 12/31/2005	AIS 12/31/2006	AIS 3 Years Combined	COI 12/31/2004	COI 12/31/2005	COI 12/31/2006	COI 3 Years Combined
(1)	Basic Limits Losses	340,813	352,657	367,233	1,060,703	340,812,724	352,657,004	367,232,972	1,060,702,700
(2)	Basic Limits Loss Development Factor	1.001	1.009	1.029		1.001	1.009	1.029	
(3)	Basic Limits Losses Developed	341,154	355,831	377,883	1,074,867	341,153,537	355,830,917	377,882,728	1,074,867,182
(4)	Total Limits Losses	343,297	355,746	370,351	1,069,394	343,296,757	355,746,113	370,351,274	1,069,394,144
(5)	Total Limits Loss Development Factor	1.001	1.008	1.027		1.001	1.008	1.027	
(6)	Total Limits Losses Developed	343,640	358,592	380,350	1,082,583	343,640,054	358,592,082	380,350,758	1,082,582,894
(7)	Indicated Average Increased Limits Factor	1.007	1.008	1.007	1.007	1.007	1.008	1.007	1.007
(8)	Average Increased Limits Factor	1.012	1.013	1.013	1.013	1.012	1.013	1.013	1.013
(9)	Indicated Change to Excess Limits Increments				-43.3%				-46.2%
(10)	Indicated Total Limits Change				-0.5%				-0.6%

Notes to Exhibit 1, Section B, Pages 46 and 47

NCRB (North Carolina Rate Bureau)
RB-1, G-3; DOI-5, Exhibit 5 Page 1
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 5 Page 1
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-2, Sheet 7
COI (Commissioner of Insurance)
(1) DR1-60, OCS, AIS
(2) NCRB, OCS, AIS
(3) =(1) x (2)
(4) DR1-60, OCS, AIS
(5) NCRB, OCS, AIS
(6) = (4) x (5)
(7) =(6) / (3)
(8) DR1-60, OCS, AIS
(9) ={[(7) - 1] / [(8) - 1]} - 1
(10) =[(7) / (8)] - 1

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Total Limits Changes - NCRB
Statewide Rate Review

Voluntary and Ceded Bodily Injury

(1) BI Indicated Change to Excess Limits Increments	37.9%
(2) BI Indicated Change to Total Limits	6.3%

(3) Limit (000)	(4) YE 2006 TL Written Premium	(5) Current BI ILF	(6) Current 30/60 Written Premium	(7) Revised BI ILF	(8) Revised TL Written Premium	(9) Effective % Change
30/60	281,864,857	1.00	281,864,857	1.00	281,864,857	0.0%
50/100	265,500,694	1.15	230,870,169	1.21	278,660,294	5.0%
100/200	6,129,979	1.33	4,609,007	1.46	6,706,105	9.4%
100/300	391,816,396	1.35	290,234,367	1.48	430,417,567	9.9%
250/500	65,712,800	1.57	41,855,287	1.79	74,753,542	13.8%
300/300	41,680,286	1.54	27,065,121	1.75	47,228,636	13.3%
1000/1000	1,885,530	1.83	1,030,344	2.14	2,209,058	17.2%
All Other	12,611,072	1.202	10,491,740	1.278	13,408,444	6.3%
Total/Average	1,067,201,614	1.202	888,020,892	1.278	1,135,248,502	6.4%

Voluntary and Ceded Property Damage

(10) PD Indicated Change to Excess Limits Increments	-40.0%
(11) PD Indicated Change to Total Limits	-0.4%

(12) Limit (000)	(13) YE 2006 TL Written Premium	(14) Current PD ILF	(15) Current $25,000 Written Premium	(16) Revised PD ILF	(17) Revised TL Written Premium	(18) Effective % Change
25	283,666,241	1.000	283,666,241	1.000	283,666,241	0.0%
50	413,168,935	1.010	409,078,153	1.006	411,532,622	-0.4%
100	158,983,422	1.030	154,352,837	1.018	157,131,188	-1.2%
250	2,366,241	1.059	2,234,411	1.035	2,312,615	-2.3%
300	192,534	1.069	180,107	1.041	187,491	-2.6%
500	635,111	1.113	570,630	1.068	609,433	-4.0%
1000	202,450	1.202	168,428	1.121	188,807	-6.7%
All Other	8,710,017	1.011	8,615,249	1.006	8,666,941	-0.5%
Total/Average	867,924,951	1.011	858,866,055	1.006	864,295,338	-0.4%

Voluntary and Ceded Medical Payments

(19) Limit	(20) YE 2006 TL Written Premium	(21) Prior ILF	(22) BL Written Premium
500	1,352,201	1.00	1,352,201
750	98,804	1.33	74,289
1,000	38,744,057	1.60	24,215,036
2,000	42,482,201	2.34	18,154,787
3,000	200,182	2.79	71,750
5,000	25,398,195	3.38	7,514,259
10,000	7,591,259	3.86	1,966,647
All Other	3,616,821	2.172	1,665,203
Total/Average	119,483,720	2.172	55,014,171

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Total Limits Changes - OCS
Statewide Rate Review

Voluntary Bodily Injury

(1) BI Indicated Change to Excess Limits Increments	44.8%
(2) BI Indicated Change to Total Limits	9.0%

(3) Limit (000)	(4) Current TL Written Premium	(5) Current BI ILF	(6) Current 30/60 Written Premium	(7) Revised BI ILF	(8) Revised TL Written Premium	(9) Effective % Change
30/60	113,112,612	1.000	113,112,612	1.00	113,112,612	0.0%
50/100	188,176,093	1.150	163,631,385	1.22	199,630,290	6.1%
100/200	5,580,288	1.330	4,195,705	1.48	6,209,644	11.3%
100/300	337,599,264	1.350	250,073,529	1.51	377,611,029	11.9%
250/500	63,680,678	1.570	40,560,941	1.83	74,226,523	16.6%
300/300	41,525,088	1.540	26,964,343	1.78	47,996,530	15.6%
1000/1000	1,881,051	1.830	1,027,897	2.20	2,261,373	20.2%
All Other	6,711,547	1.253	5,356,382	1.369	7,332,887	9.3%
Total/Average	758,266,621	1.253	604,922,795	1.369	828,380,888	9.2%

Voluntary Property Damage

(10) PD Indicated Change to Excess Limits Increments	-43.3%
(11) PD Indicated Change to Total Limits	-0.5%

(12) Limit (000)	(13) Current TL Written Premium	(14) Current PD ILF	(15) Current $25,000 Written Premium	(16) Revised PD ILF	(17) Revised TL Written Premium	(18) Effective % Change
25	140,300,167	1.000	140,300,167	1.00	140,300,167	0.0%
50	305,881,156	1.010	302,852,630	1.01	304,669,745	-0.4%
100	155,042,685	1.030	150,526,879	1.02	153,085,836	-1.3%
250	2,364,952	1.059	2,233,194	1.03	2,306,889	-2.5%
300	192,522	1.069	180,095	1.04	187,119	-2.8%
500	634,826	1.113	570,374	1.06	606,878	-4.4%
1000	202,446	1.202	168,424	1.11	187,625	-7.3%
All Other	3,957,072	1.013	3,906,290	1.007	3,933,634	-0.6%
Total/Average	608,575,826	1.013	600,738,053	1.008	605,277,893	-0.5%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Calculation of Total Limits Changes - COI
Statewide Rate Review

Voluntary Bodily Injury

(1) BI Indicated Change to Excess Limits Increments	23.4%
(2) BI Indicated Change to Total Limits	4.7%

(3) Limit (000)	(4) Current TL Written Premium	(5) Current BI ILF	(6) Current 30/60 Written Premium	(7) Revised BI ILF	(8) Revised TL Written Premium	(9) Effective % Change
30/60	113,112,612	1.000	113,112,612	1.00	113,112,612	0.0%
50/100	188,176,093	1.150	163,631,385	1.19	194,721,348	3.5%
100/200	5,580,288	1.330	4,195,705	1.41	5,915,944	6.0%
100/300	337,599,264	1.350	250,073,529	1.43	357,605,146	5.9%
250/500	63,680,678	1.570	40,560,941	1.70	68,953,600	8.3%
300/300	41,525,088	1.540	26,964,343	1.67	45,030,453	8.4%
1000/1000	1,881,051	1.830	1,027,897	2.02	2,076,351	10.4%
All Other	6,711,547	1.253	5,356,382	1.369	7,332,887	9.3%
Total/Average	758,266,621	1.253	604,922,795	1.314	794,748,343	4.8%

Voluntary Property Damage

(10) PD Indicated Change to Excess Limits Increments	-46.2%
(11) PD Indicated Change to Total Limits	-0.6%

(12) Limit (000)	(13) Current TL Written Premium	(14) Current PD ILF	(15) Current $25,000 Written Premium	(16) Revised PD ILF	(17) Revised TL Written Premium	(18) Effective % Change
25	140,300,167	1.000	140,300,167	1.000	140,300,167	0.0%
50	305,881,156	1.010	302,852,630	1.005	304,366,893	-0.5%
100	155,042,685	1.030	150,526,879	1.016	152,935,309	-1.4%
250	2,364,952	1.059	2,233,194	1.032	2,304,656	-2.5%
300	192,522	1.069	180,095	1.037	186,759	-3.0%
500	634,826	1.113	570,374	1.061	605,167	-4.7%
1000	202,446	1.202	168,424	1.109	186,783	-7.7%
All Other	3,957,072	1.013	3,906,290	1.007	3,933,634	-0.6%
Total/Average	608,575,826	1.013	600,738,053	1.007	604,819,367	-0.6%

Voluntary Medical Payments

(19) Limit	(20) YE 2006 TL Written Premium	(21) Prior ILF	(22) BL Written Premium
500	642,503	1.00	642,503
750	11,580	1.33	8,707
1,000	24,896,360	1.60	15,560,225
2,000	32,363,474	2.34	13,830,544
3,000	200,052	2.79	71,703
5,000	24,585,316	3.38	7,273,762
10,000	7,585,024	3.86	1,965,032
All Other	3,553,735	2.294	1,549,143
Total/Average	93,838,044	2.294	40,901,620

Notes to Exhibit 1, Section B, Pages 49, 50 and 51

NCRB (North Carolina Rate Bureau)
RB-1, G-6, G-9; DOI-5, Exhibit 5 Page 2
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 5, Page 2
COI (Commissioner of Insurance)
(1) Exhibit 1, Section B, Page 44, COI 3 Years Combined Line (17)
(2) Exhibit 1, Section B, Page 44, COI 3 Years Combined Line (18)
(3) NCRB, OCS
(4) NCRB, OCS
(5) NCRB, OCS
(6) = (4) * (5)
(7) = {[(5) - 1] * [(1) + 1]} + 1
(8) = (6) * (7)
(9) = (8) / (4)
(10) Exhibit 1, Section B, Page 47, COI 3 Years Combined Line (17)
(11) Exhibit 1, Section B, Page 47, COI 3 Years Combined Line (18)
(12) NCRB, OCS
(13) NCRB, OCS
(14) NCRB, OCS
(15) = (13) * (14)
(16) = {[(14) - 1] * [(10) + 1]} + 1
(17) = (15) * (16)
(18) = (17) / (13)
(19) DR1-60, Page G-9
(20) DR1-60, Page G-9
(21) DR1-60, Page G-9
(22) = (21) / (20)

North Carolina
Private Passenger Automobile Insurance - Motorcycles - February 1, 2008
Liability Coverage

Voluntary and Ceded Business

	NCRB*			OCS		
	Year Ended 12/31/2004	Year Ended 12/31/2005	Year Ended 12/31/2006	Year Ended 12/31/2004	Year Ended 12/31/2005	Year Ended 12/31/2006
(1) Earned Premium at Present Rates	21,778,264	24,569,977	24,908,420	21,778,264	24,569,977	24,908,420
(2) Incurred Losses	11,368,841	11,770,230	13,454,104	11,368,841	11,770,230	13,454,104
(3) Loss Adjustment Expense Factor	0.171	0.171	0.171	0.171	0.171	0.171
(4) Loss Adjustment Expense	1,944,072	2,012,709	2,300,652	1,944,072	2,012,709	2,300,652
(5) Factor to Adjust to Voluntary Business Only	---	---	---	---	---	---
(6) Adjusted Incurred Losses	---	---	---	---	---	---
(7) Adjusted Loss Adjustment Expense	---	---	---	---	---	---
(8) General and Other Acq. Expenses	2,631,975	3,506,937	4,184,710	2,631,975	3,402,252	3,297,044
(9) Average Annual Change in Losses	0.8%	1.3%	1.2%	0.5%	0.9%	0.7%
(10) Average Annual Change in Expense Costs	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
(11) Years of Trend - Losses and LAE	5.28	4.28	3.28	5.28	4.28	3.28
(12) Years of Trend - Expenses	5.00	4.00	3.00	5.00	4.00	3.00
(13) Projected Losses	11,857,701	12,441,133	13,992,268	11,675,800	12,229,269	13,763,548
(14) Projected Loss Adjustment Expenses	2,367,880	2,360,908	2,599,737	2,367,879	2,360,908	2,599,737
(15) Projected Gen. And Other Acq. Expenses	3,171,530	4,071,554	4,678,506	3,171,530	3,950,015	3,686,095
(16) Projected Losses, LAE and G&OA Expenses	17,397,111	18,873,595	21,270,511	17,215,209	18,540,192	20,049,380
(17) Projected Loss, LAE, and G&OA Expense Ratio	0.799	0.768	0.854	0.790	0.755	0.805
(18) Permissible Loss, LAE, and G&OA Expense Ratio	0.796	0.809	0.797	0.888	0.901	0.889
(19) Indicated Rate Level Change	0.4%	-5.1%	7.2%	-11.0%	-16.3%	-9.4%
(20) Adjustment Factor for Increase in MVR Fee	0.580%	0.435%	0.000%	0.580%	0.435%	0.000%
(21) Final Indicated Basic Limits Rate Level Change	1.0%	-4.7%	7.2%	-10.5%	-15.9%	-9.4%
(22) Selected Rate Level Change		1.2%			-11.9%	

* NCRB displayed in loss ratio methodology for comparison.

North Carolina
Private Passenger Automobile Insurance - Motorcycles - February 1, 2008
Liability Coverage

Voluntary and Ceded Business

		AIS (000)			COI		
		Year Ended 12/31/2004	Year Ended 12/31/2005	Year Ended 12/31/2006	Year Ended 12/31/2004	Year Ended 12/31/2005	Year Ended 12/31/2006
(1)	Earned Premium at Present Rates	21,791	24,856	25,483	21,778,264	24,569,977	24,908,420
(2)	Incurred Losses	11,369	11,770	13,454	11,368,841	11,770,230	13,454,104
(3)	Loss Adjustment Expense Factor	0.171	0.171	0.171	0.171	0.171	0.171
(4)	Loss Adjustment Expense	1,944	2,013	2,301	1,944,072	2,012,709	2,300,652
(5)	Factor to Adjust to Voluntary Business Only	0.803	0.812	0.820	---	---	---
(6)	Adjusted Incurred Losses	9,129	9,557	11,032	---	---	---
(7)	Adjusted Loss Adjustment Expense	1,561	1,635	1,887	---	---	---
(8)	General and Other Acq. Expenses	2,632	3,507	4,185	2,631,975	3,402,252	3,297,044
(9)	Average Annual Change in Losses	0.3%	0.7%	0.4%	0.5%	0.9%	0.7%
(10)	Average Annual Change in Expense Costs	2.5%	2.5%	2.5%	3.8%	3.8%	3.8%
(11)	Years of Trend - Losses and LAE	5.28	4.28	3.28	5.28	4.28	3.28
(12)	Years of Trend - Expenses	5.00	4.00	3.00	5.00	4.00	3.00
(13)	Projected Losses	9,275	9,847	11,178	11,675,800	12,229,269	13,763,548
(14)	Projected Loss Adjustment Expenses	1,778	1,817	2,046	2,367,880	2,360,908	2,599,737
(15)	Projected Gen. and Other Acq. Expenses	2,978	3,871	4,507	3,171,530	3,950,015	3,686,095
(16)	Projected Losses, LAE and G&OA Expenses	14,031	15,535	17,730	17,215,210	18,540,192	20,049,380
(17)	Projected Loss, LAE, and G&OA Expense Ratio	0.644	0.625	0.696	0.790	0.755	0.805
(18)	Permissible Loss, LAE, and G&OA Expense Ratio	0.883	0.896	0.884	0.881	0.894	0.882
(19)	Indicated Rate Level Change	-27.1%	-30.2%	-21.3%	-10.3%	-15.5%	-8.7%
(20)	Adjustment Factor for Increase in MVR Fee	0.000%	0.000%	0.000%	0.580%	0.435%	0.000%
(21)	Final Indicated Basic Limits Rate Level Change	-27.1%	-30.2%	-21.3%	-9.8%	-15.1%	-8.7%
(22)	Selected Rate Level Change		-26.2%			-11.2%	

Notes to Exhibit 1, Section B, Pages 53 and 54

NCRB (North Carolina Rate Bureau)

RB-1, F-2; DOI-5, Exhibit 6 Page 1

OCS (Mary Lou O'Neil)

DOI-5, Exhibit 6 Page 1

AIS (Allan I. Schwartz)

DOI-4, Schedule AIS-16

COI (Commissioner of Insurance)

(1) NCRB, OCS
(2) NCRB, OCS, AIS
(3) NCRB, OCS, AIS
(4) = (2) x (3)
(5) NCRB, OCS
(6) NCRB, OCS
(7) NCRB, OCS
(8) OCS
(9) Exhibit 1, Section B, Page 56, COI, Line (13)
(10) NCRB, OCS
(11) NCRB, OCS, AIS
(12) NCRB, OCS, AIS
(13) = (2) x {[1+(9)] ^ (11)}
(14) = (4) x {[1+(10)] ^ (11)}
(15) = (8) x {[1+(10)] ^ (12)}
(16) = (13) + (14) + (15)
(17) = (16) / (1)
(18) Exhibit 1, Section C, Pages 7-9, Liability, COI Line (9)
(19) = [(17) / (18)] - 1
(20) NCRB, OCS
(21) = {[1 + (19)] * [1 + (20)]} - 1
(22) Premium Weighted Average of (21)

North Carolina
Private Passenger Automobile Insurance - Motorcycles - February 1, 2008
Liability Coverage
Calculation of Average Annual Change in Losses

	NCRB			COI		
	Year Ended 12/31/2004	Year Ended 12/31/2005	Year Ended 12/31/2006	Year Ended 12/31/2004	Year Ended 12/31/2005	Year Ended 12/31/2006
(1) Bodily Injury (BI) Total Limits Losses	724,936,618	690,816,020	652,602,054	432,067,394	413,602,002	396,747,441
(2) BI Total Limits Loss Development Factor	1.017	1.066	1.175	1.017	1.066	1.175
(3) BI Total Limits Developed Losses	737,260,541	736,409,877	766,807,413	439,412,540	440,899,734	466,178,243
(4) BI Average Annual Change in Losses	0.6%	1.0%	0.8%	0.6%	1.0%	0.8%
(5) Property Damage (PD) Total Limits Losses	563,090,152	572,325,437	587,544,521	343,296,757	355,746,113	370,351,274
(6) PD Total Limits Loss Development Factor	1.001	1.008	1.027	1.001	1.008	1.027
(7) PD Total Limits Developed Losses	563,653,242	576,904,040	603,408,223	343,640,054	358,592,082	380,350,758
(8) PD Average Annual Change in Losses	1.4%	2.1%	2.0%	0.8%	1.3%	0.9%
(9) Medical Payments (MP) Total Limits Losses	90,547,709	88,600,011	90,537,990	62,696,393	62,368,490	64,071,411
(10) MP Loss Development Factor	1.007	1.021	1.078	1.007	1.021	1.078
(11) MP Total Limits Developed Losses	91,181,543	90,460,611	97,599,953	63,135,268	63,678,228	69,068,981
(12) MP Average Annual Change in Losses	-1.7%	-0.9%	-0.6%	-2.2%	-1.6%	-1.5%
(13) Weighted Average Annual Change in Losses	0.8%	1.3%	1.2%	0.5%	0.9%	0.7%

Notes to Exhibit 1, Section B, Page 56

NCRB (North Carolina Rate Bureau)

RB-1, F-5

COI (Commissioner of Insurance)

(1) Exhibit 1, Section B, Page 44, COI, Line (8)
(2) Exhibit 1, Section B, Page 44, COI, Line (9)
(3) = (1) x (2)
(4) Exhibit 1, Section B, Pages 8, 7 and 6, COI, Line (13)
(5) Exhibit 1, Section B, Page 47, COI, Line (4)
(6) Exhibit 1, Section B, Page 47, COI, Line (5)
(7) = (5) x (6)
(8) Exhibit 1, Section B, Pages 12, 11 and 10, COI, Line (13)
(9) Exhibit 1, Section B, Pages 16, 15 and 14, COI, Line (2)
(10) Exhibit 1, Section B, Pages 16, 15 and 14, COI, Line (3)
(11) = (9) x (10)
(12) Exhibit 1, Section B, Pages 16, 15 and 14, COI, Line (13)
(13) = {[(3) x (4)] + [(7) x (8)] + [(11) x (12)]} / [(3) + (7) + (11)]

North Carolina

Automobile Insurance Rates

Private Passenger Automobile Insurance - Cars and Motorcycles - February 1, 2008

Section C

Determination of Permissible Loss and Expense Ratios and
Underwriting Profit and Contingency Provisions

Effective Date 01 January 2009

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Determination of Permissible Loss, Loss Adjustment Expense, General and Other Acquisition Expense Ratio

For use with 12/31/2006 data

Voluntary Liability		NCRB	OCS	AIS	COI
(1)	Commission and Brokerage	10.0%	10.0%	10.0%	10.0%
(2)	Taxes, Licenses and Fees	2.1%	2.1%	2.1%	2.1%
(3)	Underwriting Profit and Contingencies	8.0%	-0.4%	-0.7%	-0.5%
(4)	Total	20.1%	11.7%	11.4%	11.6%
(5)	Premium Finance Charge	---	1.10%	---	---
(6)	Permissible Loss, LAE and G & OA Expense Ratio	79.9%	89.4%	88.6%	88.4%

Standard Physical Damage		NCRB	OCS	AIS	COI
(1)	Commission and Brokerage	10.0%	10.0%	10.0%	10.0%
(2)	Taxes, Licenses and Fees	2.1%	2.1%	2.1%	2.1%
(3)	Underwriting Profit and Contigencies	11.0%	1.8%	1.4%	2.1%
(4)	Total	23.1%	13.9%	13.5%	14.2%
(5)	Premium Finance Charge	---	1.10%	---	---
(6)	Permissible Loss, LAE and G & OA Expense Ratio	76.9%	87.2%	86.5%	85.8%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Determination of Permissible Loss, Loss Adjustment Expense, General and Other Acquisition Expense Ratio

For use with 12/31/2005 data

Voluntary Liability		NCRB	OCS	AIS	COI
(1)	Commission and Brokerage	10.4%	10.4%	10.4%	10.4%
(2)	Taxes, Licenses and Fees	2.3%	2.3%	2.3%	2.3%
(3)	Underwriting Profit and Contigencies	8.0%	-0.4%	-0.7%	-0.5%
(4)	Total	20.7%	12.3%	12.0%	12.2%
(5)	Premium Finance Charge	---	1.10%	---	---
(6)	Permissible Loss, LAE and G & OA Expense Ratio	79.3%	88.8%	88.0%	87.8%

Standard Physical Damage		NCRB	OCS	AIS	COI
(1)	Commission and Brokerage	9.7%	9.7%	9.7%	9.7%
(2)	Taxes, Licenses and Fees	2.3%	2.3%	2.3%	2.3%
(3)	Underwriting Profit and Contigencies	11.0%	1.8%	1.4%	2.1%
(4)	Total	23.0%	13.8%	13.4%	14.1%
(5)	Premium Finance Charge	---	1.10%	---	---
(6)	Permissible Loss, LAE and G & OA Expense Ratio	77.0%	87.3%	86.6%	85.9%

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Determination of Permissible Loss, Loss Adjustment Expense, General and Other Acquisition Expense Ratio

For use with 12/31/2004 data

Voluntary Liability		NCRB	OCS	AIS	COI
(1)	Commission and Brokerage	9.9%	9.9%	9.9%	9.9%
(2)	Taxes, Licenses and Fees	2.3%	2.3%	2.3%	2.3%
(3)	Underwriting Profit and Contigencies	8.0%	-0.4%	-0.7%	-0.5%
(4)	Total	20.2%	11.8%	11.5%	11.7%
(5)	Premium Finance Charge	---	1.10%	---	---
(6)	Permissible Loss, LAE and G & OA Expense Ratio	79.8%	89.3%	88.5%	88.3%

Standard Physical Damage		NCRB	OCS	AIS	COI
(1)	Commission and Brokerage	9.4%	9.4%	9.4%	9.4%
(2)	Taxes, Licenses and Fees	2.2%	2.2%	2.2%	2.2%
(3)	Underwriting Profit and Contigencies	11.0%	1.8%	1.4%	2.1%
(4)	Total	22.6%	13.4%	13.0%	13.7%
(5)	Premium Finance Charge	---	1.10%	---	---
(6)	Permissible Loss, LAE and G & OA Expense Ratio	77.4%	87.7%	87.0%	86.3%

Notes to Exhibit 1, Section C, Pages 1, 2 and 3

NCRB (North Carolina Rate Bureau)
RB-1, D-20 - 22
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 10 Page 1
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-4, Sheet 1
COI (Commissioner of Insurance)

Voluntary Liability

(1) NCRB, OCS, AIS
(2) NCRB, OCS, AIS
(3) Exhibit 1, Section C, Page 11, Line K
(4) = (1) + (2) + (3)
(5) NCRB, AIS
(6) = 1 - (4) + (5)

Standard Physical Damage

(1) NCRB, OCS, AIS
(2) NCRB, OCS, AIS
(3) Exhibit 1, Section C, Page 13, Line K
(4) = (1) + (2) + (3)
(5) NCRB, AIS
(6) = 1 - (4) + (5)

North Carolina
Private Passenger Automobile Insurance - Cars - February 1, 2008
Determination of Permissible Loss, Loss Adjustment Expense, General and Other Acquisition Expense Ratio

For use with 12/31/2006, 12/31/2005 and 12/31/2004 Data

Uninsured and Underinsured Motorists	**NCRB**	**OCS**		**AIS**	**COI**
		Voluntary	Facility		
(1) Commission and Brokerage	10.0%	10.0%	10.0%	10.0%	10.0%
(2) Taxes, Licenses and Fees	2.1%	2.1%	2.1%	2.1%	2.1%
(3) General Administration, Other Acquisition Expenses	16.9%	14.5%	14.5%	16.9%	14.5%
(4) Excess Reported Expenses	---	---	---	1.0%	---
(5) Underwriting Profit and Contingencies	8.0%	-0.4%	-4.4%	-0.7%	-0.5%
(6) Total	37.0%	26.2%	22.2%	27.3%	26.1%
(7) Premium Finance Charge	---	---	---	---	---
(8) Permissible Loss, LAE and G & OA Expense Ratio	63.0%	73.8%	77.8%	72.7%	73.9%
(9) Exposure Distribution	---	70.5%	29.5%	---	---
(10) Weighted Average Permissible Loss and Expense Ratio	63.0%	75.0%		72.7%	73.9%

Notes to Exhibit 1, Section C, Page 5

NCRB (North Carolina Rate Bureau)
RB-1, E-8
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 10 Page 1
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-4, Sheet 1
COI (Commissioner of Insurance)
(1) NCRB, OCS, AIS
(2) NCRB, OCS, AIS
(3) OCS
(4) NCRB, OCS
(5) Exhibit 1, Section C, Page 11, Line K
(6) = (1) + (2) + (3) - (4) + (5)
(7) NCRB, AIS
(8) = 1 - (6) + (7)
(10) = (8)
OCS: [Voluntary (8) x (9)] + [Facility (8) x (9)]

North Carolina
Private Passenger Automobile Insurance - Motorcycles - February 1, 2008
Determination of Permissible Loss, Loss Adjustment Expense, General and Other Acquisition Expense Ratio

		For use with 12/31/2004 data			
Motorcycle Liability		**NCRB**	**OCS**	**AIS**	**COI**
(1)	Commission and Brokerage	10.3%	10.3%	10.3%	10.3%
(2)	Taxes, Licenses and Fees	2.1%	2.1%	2.1%	2.1%
(3)	Facility Underwriting Profit and Contingencies	---	-4.4%	---	---
(4)	Voluntary Underwriting Profit and Contingencies	8.0%	-0.4%	-0.7%	-0.5%
(5)	Proportion Voluntary/Total Market	---	78.9%	---	---
(6)	Weighted Underwriting Profit and Contingencies	---	-1.2%	---	---
(7)	Total	20.4%	11.2%	11.7%	11.9%
(8)	Premium Finance Charge	---	---	---	---
(9)	Permissible Loss and Expense Ratio	79.6%	88.8%	88.3%	88.1%

North Carolina
Private Passenger Automobile Insurance - Motorcycles - February 1, 2008
Determination of Permissible Loss, Loss Adjustment Expense, General and Other Acquisition Expense Ratio

		For use with 12/31/2005 data			
Motorcycle Liability		**NCRB**	**OCS**	**AIS**	**COI**
(1)	Commission and Brokerage	9.1%	9.1%	9.1%	9.1%
(2)	Taxes, Licenses and Fees	2.0%	2.0%	2.0%	2.0%
(3)	Facility Underwriting Profit and Contingencies	---	-4.4%	0.0%	---
(4)	Voluntary Underwriting Profit and Contingencies	8.0%	-0.4%	-0.7%	-0.5%
(5)	Proportion Voluntary/Total Market	---	78.9%	0.0%	---
(6)	Weighted Underwriting Profit and Contingencies	---	-1.2%	---	---
(7)	Total	19.1%	9.9%	10.4%	10.6%
(8)	Premium Finance Charge	---	---	---	---
(9)	Permissible Loss and Expense Ratio	80.9%	90.1%	89.6%	89.4%

North Carolina
Private Passenger Automobile Insurance - Motorcycles - February 1, 2008
Determination of Permissible Loss, Loss Adjustment Expense, General and Other Acquisition Expense Ratio

		For use with 12/31/2006 data		
Motorcycle Liability	**NCRB**	**OCS**	**AIS**	**COI**
(1) Commission and Brokerage	10.1%	10.1%	10.1%	10.1%
(2) Taxes, Licenses and Fees	2.2%	2.2%	2.2%	2.2%
(3) Facility Underwriting Profit and Contingencies	---	-4.4%	---	---
(4) Voluntary Underwriting Profit and Contingencies	8.0%	-0.4%	-0.7%	-0.5%
(5) Proportion Voluntary/Total Market	---	78.9%	---	---
(6) Weighted Underwriting Profit and Contingencies	---	-1.2%	---	---
(7) Total	20.3%	11.1%	11.6%	11.8%
(8) Premium Finance Charge	---	---	---	---
(9) Permissible Loss and Expense Ratio	79.7%	88.9%	88.4%	88.2%

Notes to Exhibit 1, Section C, Pages 7, 8 and 9

NCRB (North Carolina Rate Bureau)
RB-1, F-4
OCS (Mary Lou O'Neil)
DOI-5, Exhibit 10 Page 1
AIS (Allan I. Schwartz)
DOI-4, Schedule AIS-16
COI (Commissioner of Insurance)
(1) NCRB, OCS, AIS
(2) NCRB, OCS, AIS
(4) Exhibit 1, Section C, Page 11, Line K
(7) = (1) + (2) + (4)
OCS: (1) + (2) + {[(4) x (5)] + {(3) x [1- (5)]}}
(8) NCRB, OCS, AIS
(9) = 1 - (7) + (8)

North Carolina
Private Passenger Automobile Insurance - February 1, 2008
Calculation of the Underwriting Profit and Contingency Factor

Liability Coverages - COI

A. Unearned Premium Reserve		
1. Direct Earned Premium for Accident Year		$2,359,767,397
2. Mean Unearned Premium Reserve (A1) x	28.50%	$672,533,708
3. Deduction for Prepaid Expenses	19.35%	
a. Commission and Brokerage	10.00%	
b. Taxes, Licenses and Fees	2.10%	
c. One Half Other Acquisition Expense and One Half General Expense	7.25%	
4. (A2) x (A3)		$130,135,273
5. Net Reserve Subject to Investment (A2) - (A4)		$542,398,436
B. Delayed Remission of Premium (Agents' Balances)		
1. Direct Earned Premium (A1)		$2,359,767,397
2. Average Agents' Balances		0.168
3. Delayed Remission (B1) x (B2)		$396,440,923
C. Loss and Loss Adjustment Expense Reserves		
1. Direct Earned Premium (A1)		$2,359,767,397
2. Expected Incurred Losses and Loss Adj.Expenses (C1) x	0.7390	$1,743,868,106
3. Expected Mean Loss Reserve (C2) x	0.886	$1,545,067,142
D. Net Reserves Subject to Investment (A5) - (B3) + (C3)		$1,691,024,655
E. Average Rate of Return		5.44%
F. Investment Earnings on Net Reserves Subject to Investment (D) x (E)		$91,991,741
G. Return from Investment on Reserves as a Percent of Direct Earned Premium (F) / (A1)		3.90%
H. Installment Payment Income as a Percent of Direct Earned Premium		1.12%
I. Return from Investment on Reserves and Installment Payment Income (G) + (H)		5.02%
J. Return on Insurance Operations as a Percent of Direct Earned Premium		4.5%
K. Underwriting Profit and Contingency Factor (J) - (I)		-0.5%

Notes to Exhibit 1, Section C, Page 11

RB-1, Page H-586, except Lines A3a-A3c, C2, E, H,I, J and K

(A3a) Exhibit 1, Section C, Page 1, COI Voluntary Liability Line (1)
(A3b) Exhibit 1, Section C, Page 1, COI Voluntary Liability Line (2)
(A3c) DOI-5, Page 19, Line 7, 14.5% / 2 = 7.25%
(C2) 0.7390 = 0.8840 - 0.1450
0.8840 is from Exhibit 1, Section C, Page 1, COI Voluntary Liability Line (6), Permissible Loss & Expense Ratio
0.1450 is from DOI-5, Page 19, Line 7, G&OA Expense Ratio
(E) RB-36, Page 7, Line D
(H) RB-36, Page 3
(J) Exhibit 1, Section C, Page 15, Selected Target Return on Operations as a Percent of Premium for Liability

North Carolina
Private Passenger Automobile Insurance - February 1, 2008
Calculation of the Underwriting Profit and Contingency Factor

Physical Damage Coverages - COI

A. Unearned Premium Reserve		
1. Direct Earned Premium for Accident Year		$1,406,554,611
2. Mean Unearned Premium Reserve (A1) x	27.90%	$392,428,736
3. Deduction for Prepaid Expenses	18.70%	
a. Commission and Brokerage	10.00%	
b. Taxes, Licenses and Fees	2.10%	
c. One Half Other Acquisition Expense and One Half General Expense	6.60%	
4. (A2) x (A3)		$73,384,174
5. Net Reserve Subject to Investment (A2) - (A4)		$319,044,563
B. Delayed Remission of Premium (Agents' Balances)		
1. Direct Earned Premium (A1)		$1,406,554,611
2. Average Agents' Balances		0.178
3. Delayed Remission (B1) x (B2)		$250,366,721
C. Loss and Loss Adjustment Expense Reserves		
1. Direct Earned Premium (A1)		$1,406,554,611
2. Expected Incurred Losses and Loss Adj.Expenses (C1) x	0.7260	$1,021,158,648
3. Expected Mean Loss Reserve (C2) x	0.124	$126,623,672
D. Net Reserves Subject to Investment (A5) - (B3) + (C3)		$195,301,514
E. Average Rate of Return		5.44%
F. Investment Earnings on Net Reserves Subject to Investment (D) x (E)		$10,624,402
G. Return from Investment on Reserves as a Percent of Direct Earned Premium (F) / (A1)		0.76%
H. Installment Payment Income as a Percent of Direct Earned Premium		1.12%
I. Return from Investment on Reserves and Installment Payment Income (G) + (H)		1.88%
J. Return on Insurance Operations as a Percent of Direct Earned Premium		4.0%
K. Underwriting Profit and Contingency Factor (J) - (I)		2.1%

Notes to Exhibit 1, Section C, Page 13

RB-1, Page H-590, except Lines A3a-A3c, C2, E, H,I, J and K

(A3a)	Exhibit 1, Section C, Page 1, COI Standard Physical Damage Line (1)
(A3b)	Exhibit 1, Section C, Page 1, COI Standard Physical Damage Line (2)
(A3c)	DOI-5, Page 19, Line 9, 13.2% / 2 = 6.60%
(C2)	0.7260 = 0.8580 - 0.1320 0.8580 is from Exhibit 1, Section C, Page 1, COI Standard Physical Damage Line (6), Permissible Loss & Expense Ratio 0.1320 is from DOI-5, Page 19, Line 9, G&OA Expense Ratio
(E)	RB-37, Page 7, Line D
(H)	RB-37, Page 3
(J)	North Carolina Commissioner of Insurance's 2008 Private Passenger Automobile Order, p. 81

North Carolina
Private Passenger Automobile Insurance - February 1, 2008
Derivation of Target Return from Operations

(1) Year	(2) Earned Premium (000)	(3) Underwriting Profit/Loss (000)	(4) Investment Gain on Reserves (000)	(5)=(3)/(2) Percent of Premium Underwriting	(6)=(4)/(2) Percent of Premium Investment	(7)=(5)+(6) Percent of Premium Combined
1983	107,195,857	(13,322,000)	14,699,685	-12.4%	13.7%	1.3%
1984	115,009,836	(21,618,000)	17,352,768	-18.8%	15.1%	-3.7%
1985	133,341,852	(25,105,000)	21,972,600	-18.8%	16.5%	-2.3%
1986	166,381,186	(16,568,000)	25,447,051	-10.0%	15.3%	5.3%
1987	188,989,174	(10,195,000)	23,485,788	-5.4%	12.4%	7.0%
1988	199,978,326	(11,814,000)	25,481,840	-5.9%	12.7%	6.8%
1989	206,669,462	(20,835,000)	29,684,975	-10.1%	14.4%	4.3%
1990	215,952,506	(21,652,000)	29,050,242	-10.0%	13.5%	3.4%
1991	222,150,735	(20,458,000)	30,945,327	-9.2%	13.9%	4.7%
1992	226,039,748	(36,260,000)	34,383,995	-16.0%	15.2%	-0.8%
1993	235,643,339	(18,094,000)	32,637,744	-7.7%	13.9%	6.2%
1994	244,345,912	(22,083,000)	26,387,042	-9.0%	10.8%	1.8%
1995	254,171,967	(17,375,000)	31,141,064	-6.8%	12.3%	5.4%
1996	263,350,846	(17,162,000)	32,695,995	-6.5%	12.4%	5.9%
1997	271,501,980	(6,030,000)	33,806,863	-2.2%	12.5%	10.2%
1998	277,689,827	(16,572,000)	35,657,936	-6.0%	12.8%	6.9%
1999	282,791,107	(24,429,399)	31,372,705	-8.6%	11.1%	2.5%
2000	294,024,329	(30,846,704)	34,662,911	-10.5%	11.8%	1.3%
2001	311,528,647	(51,539,430)	28,461,890	-16.5%	9.1%	-7.4%
2002	350,110,637	(31,387,169)	28,723,257	-9.0%	8.2%	-0.8%
2003	386,616,861	(4,685,214)	30,548,526	-1.2%	7.9%	6.7%
2004	414,036,594	6,167,521	31,935,350	1.5%	7.7%	9.2%
2005	417,980,688	(3,491,154)	39,864,578	-0.8%	9.5%	8.7%
2006	435,840,148	34,779,466	34,381,406	8.0%	7.9%	15.9%
Average				-8.0%	12.1%	4.1%

Selected Target Return on Operations as a Percent of Premium for Liability 4.50%

Selected Target Return on Operations as a Percent of Premium for Physical Damage 3.50%

Note:
DOI-4, Schedule AIS-7, Sheet 3