

December 5, 2019

CIRCULAR LETTER TO ALL MEMBER COMPANIES

REVISED

Re: COMMERCIAL AUTO RATING CHANGE

REMOVAL OF EXPERIENCE RATING

EFFECTIVE DATE - APRIL 1, 2020

The North Carolina Reinsurance Facility (NCRF) Board of Governors recently approved the removal of Experience Rating on all ceded commercial auto business. This change in rating philosophy will enable member companies to rate ceded risks more efficiently and accurately.

The NCRF will expect all member companies, that cede Commercial Auto business to the facility, to implement the updated rating change for new and renewal ceded business **effective on or after April 1, 2020**. We will communicate key changes of the rating manual to all member companies in the near future.

Attached are the Commercial Auto Manual pages reflecting the changes caused by the removal of Experience Rating. Final versions of the updated manual pages will be available by April 1, 2020.

These revised rules and tables **will become effective April 1, 2020** in accordance with the following Rule of Application:

These changes are applicable to all policies becoming effective on or after April 1, 2020. No policy effective prior to April 1, 2020 shall be endorsed or cancelled and rewritten to take advantage of or to avoid the application of these changes except at the request of the insured and at the customary short rate charges as of the date of such request, but in no event prior to April 1, 2020.

Questions regarding this circular letter should be directed to Tom Burns (919) 719-3033 or email at: tfb@ncrb.org.

Sincerely,

Thomas F. Burns

Director, NCRF Auto Operations

North Carolina Reinsurance Facility

TFB/lad

RF-19-12

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Matter underlined is new.

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COMMERCIAL AUTOMOBILE MANUAL

STANDARD PRACTICES

- the applicant's household and of any non-residents shown as regular operators.
- (2) Determine the use and place of principal garaging of each vehicle to be insured.
 - (3) Obtain within 60 days of the cession effective date, for each initial cession, and at least annually thereafter, a current record of convictions for moving traffic violations for the applicant and each operator whose driving record would affect the subclass for every vehicle subject to rating under the North Carolina Safe Driver Insurance Plan.
 - (4) Correctly classify and rate each vehicle in accordance with the approved North Carolina Personal Auto Manual.
 - (5) Correctly determine and charge any applicable recoupment surcharges.
- b. As to other than private passenger cars ceded to the Facility, member companies shall develop sufficient identification, territory, use, and other information correctly to classify and price, in accordance with the approved North Carolina Reinsurance Facility Commercial Automobile Manual, the insurance afforded.
- c. ~~As to every ceded risk appearing to be eligible for experience rating under the mandatory Automobile Liability Experience Rating Plan in the NCRF Commercial Automobile Manual, including (a) risks involving five or more private passenger or commercial automobiles or three or more public automobiles, (b) risks involving an estimated annual manual premium of at least \$6,500 for three or more automobiles of any type, and (c) garage annual manual premium of at least \$6,500, member companies shall:~~
- ~~(1) If complete experience rating data is available at the time of policy issuance, calculate the correct experience modification and apply it in establishing the policy premium.~~
 - ~~(2) If complete experience rating data is not available at the time of policy issuance:
 - ~~(a) Apply a tentative experience modification of 1.50.~~

~~**Exception:** In cases where the experience modification applicable to the preceding term of the policy is higher than 1.50, such higher experience modification must be applied as the tentative experience modification for the current term.~~
 - ~~(b) Endorse the policy (i) noting application of the tentative experience modification and (ii) to provide for subsequent application of any experience modification determined in accordance with the NCRF Automobile Liability Experience Rating Plan.~~~~
- ~~(c) Determine the names of companies which insured the risk during the immediately preceding four years and the numbers and effective dates of their policies.~~
 - ~~(d) If all of the required previous experience rating data is not available, notify the Reinsurance Facility that a risk eligible for experience rating has no information to rate.~~
 - ~~(e) Provide the Reinsurance Facility with the information received and request the Facility office to call for and supply the required experience rating data and/or the experience modification.~~
 - ~~(f) Apply the experience modification and adjust the policy premium accordingly.~~
- ~~(3) Provide complete experience rating data related to a ceded risk upon written request by the Facility. This data must be submitted directly to the Facility by the due date specified in the request, which will not be less than 30 days from the date of request. If the data is not received complete and in good order by the due date specified in the written request, a penalty of \$100 per day will be assessed to the company for each day the data is late until the data is received complete and in good order. The Facility initially shall bill the company for the penalty upon receiving the requested data complete and in good order, or within 30 days from the due date of the report, and periodically thereafter as appropriate. Each penalty billing will appear on the member company's Monthly Account Activity Statement and is due and payable in accordance with that statement's due date and is subject to Late Payment Fees in accordance with Section 4, Chapter 8, Paragraph E of the Standard Practice Manual.~~
- c. d. Member companies shall make all underwriting records of business ceded to the Facility available for audit by the Audit Committee or its designate. Member companies shall not:
- (1) Cede any risk to the Facility except as provided by the rules outlined in Articles IX and X in the Plan of Operation.
 - (2) Refuse to insure any eligible risk for cedable coverages unless an exemption has been approved for that company by the Board of Governors.
2. Application Requirements—Each member company shall provide agents with motor vehicle insurance application forms to obtain from applicants sufficient information properly to classify and rate each exposure. This shall include at least the following:
- a. The name, address, date of birth, operator's license number, and state of issue for the applicant, each operator residing in the applicant's household, and any nonresidents who are regular operators, as well as the original

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STANDARD PRACTICES

date of licensing for any operator licensed for less than two years.

- b. Identification of each of the specified vehicles to be insured to include the year, the make and model, the body type, and the vehicle identification number.
- c. The use of each vehicle to be insured, as required by the approved classification plan, and the place of principal garaging.
- d. A record of all accidents and convictions by the applicant and all operators as needed to establish the correct subclass, according to the North Carolina Safe Driver Insurance Plan.
- e. The correct gross weight and information regarding the use, including the radius of operation, of any commercial automobile.

~~f. With respect to risks eligible for experience rating:~~

~~(1) The names of the prior carriers for the past four years;~~

~~(2) The earned premiums for the past four years; and~~

~~(3) Current valued loss runs for the past four years.~~

f. ~~g.~~ Any other information necessary to develop the correct rating and premium for any type of risk eligible to be ceded.

g. ~~h.~~ **A Statement of Eligibility for Cession of Higher Limits Form NCRF-30 (see Section 3 Exhibit F-1 in the Standard Practice Manual)** when coverage limits above 100/300/50 are to be ceded to the Facility pursuant to paragraph C.2 of this Section and the coverage limits are required by rule, law, or regulation other than the Vehicle Financial Responsibility Act of 1957 (Article 13 Chapter 20, General Statutes of North Carolina). The insured must complete and sign a Form NCRF-30, and the signed form, or a copy thereof, must be retained in the ceding company's file. Absent a finding by the Facility of a lack of good faith by the ceding company, the ceding company shall be entitled to rely upon the insured's satisfactorily completed statement of eligibility for the cession of limits above 100/300/50. If, upon audit, the ceding company does not have a satisfactorily completed Form NCRF-30 in its file, the ceding company, in order to maintain cession of limits above 100/300/50 to the Facility or, in the event of a loss, in order to recover reimbursement from the Facility for losses in excess of 100/300/50, must prove, to the satisfaction of the Facility, that the higher limits were eligible to be ceded to the Facility as of the effective date of the initial cession of the insured's policy by the ceding company or as of the date notice of such cession was received by the Facility. A Form NCRF-30 is satisfactorily completed if the form is fully completed and the date the form was signed by the insured is prior to the later of (1) the date 45 days after

the initial notice of cession of the insured's policy by the ceding company was received by the Facility or (2) the date of a loss.

The initial statement of eligibility by the insured shall remain in effect and may be relied upon by the ceding carrier for subsequent successive renewals of the policy until such time as the insured advises the ceding company that the insured is no longer required by the rules, laws, and regulations referenced in GS 58-37-35(b)(1)e. to maintain coverage limits in excess of 100/300/50 or until the ceding company becomes aware that the insured is no longer required by such rules, laws, or regulations to maintain coverage limits in excess of 100/300/50.

i. **A Certification of Higher Coverage Limits Form NCRF-31 (See Section 3 Exhibit G-1 in the Standard Practice Manual)** when liability coverage limits above 100/300/50 or medical payments limits above \$2,000 are to be ceded to the Facility pursuant to paragraph C.3 of this Section. The insured must complete and sign a copy of Form NCRF-31 and the signed form, or a copy thereof, must be retained in the ceding company's file. Absent a finding by the Facility of a lack of good faith by the ceding company, the ceding company shall be entitled to rely upon the insured's satisfactorily completed certification for the cession of liability coverage limits above 100/300/50 and/or medical payments limits above \$2,000. If, upon audit, the ceding company does not have a satisfactorily completed Form NCRF-31 in its file, the ceding company, in order to maintain cession of such limits to the Facility or, in the event of a loss, in order to recover reimbursement from the Facility for losses in excess of 100/300/50 for the liability coverages and/or in excess of \$2,000 for medical payments, must prove, to the satisfaction of the Facility, that the higher limits were eligible to be ceded to the Facility as of the effective date of the initial cession of the insured's policy by the ceding company or as of the date notice of such cession was received by the Facility. A Form NCRF-31 is satisfactorily completed if the form is fully completed and the date the form was signed by the insured is prior to the later of (1) the date 45 days after the initial notice of cession of the insured's policy by the ceding company was received by the Facility or (2) the date of loss.

The initial certification by the insured shall remain in effect and may be relied upon by the ceding carrier for subsequent successive renewals of the policy until such time as the insured advises the ceding company that the higher limits are no longer needed in order to obtain or continue coverage under personal excess liability or personal "umbrella" insurance policies or until the ceding company becomes aware that the higher limits are no longer needed in order to obtain or continue coverage under personal excess liability or personal "umbrella" insurance policies.

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NORTH CAROLINA REINSURANCE FACILITY
COMMERCIAL AUTOMOBILE MANUAL

GENERAL RULES SECTION

**Rule 1. REINSURANCE FACILITY
SELECTED RULES OF OPERATION**

- A. For general rules of cession to the North Carolina Reinsurance Facility, refer to the Reinsurance Facility's Standard Practice Manual.
- B. The Standard Practice Manual includes information about the following:
 - 1. Facility membership obligations
 - 2. Eligibility for insurance
 - 3. Extent of coverage
 - 4. Rules, rates and policy forms
 - 5. Termination of insurance
 - 6. Commissions
 - 7. Service standards
 - 8. Minimum underwriting requirements
 - 9. Facility member responsibilities

Rule 2. APPLICATION OF THIS MANUAL

A. Contents

The rules, classifications, territories, rates, and additional charges applicable to auto risks insured in accordance with the provisions of the North Carolina Reinsurance Facility are contained herein.

B. Sections

This Manual is divided into separate sections for the following:

- 1. General Rules
- 2. Common Coverages
- 3. Trucks, Tractors, and Trailers
- 4. Public Transportation
- 5. Garage Dealers
- 6. Special Types and Operations

~~7. Experience Rating Plan~~

7. ~~8.~~ Supplementary Rating Procedures

8. ~~9.~~ Territories

9. ~~10.~~ Rates

C. Rates

- 1. For rates, refer to the Rates Section of this Manual
- 2. The rates and premium displayed in this manual are for an annual policy term. For policies written for a period other than 12 months, modify the annual rates and premiums in accordance with the provisions of the Premium Computation Rule (Rule 4).

D. Statistical Codes

Most statistical codes are shown on the rate schedules or in the specific rules. For statistical codes not shown, refer to the auto module of the commercial statistical plan.

E. Rules

Please note that if a rule regarding a type of coverage is not included in this Manual then the coverage is not eligible to be ceded to the Facility.

Rule 3. POLICY PERIOD

- A. Policies may be written for a specific term up to 36 months or on a continuous basis. However, no policy may be written for a period longer than 36 months.

Note: Annual notices of cession are required for three-year policies if coverage for the entire policy period is to be ceded to the Facility.

- B. A policy may be renewed by renewal certificates. When renewal certificates are used, they must conform in every respect to current rules, rates, and forms at the time of renewal.

Rule 4. PREMIUM COMPUTATION

- A. The premium to be charged for policy terms not exceeding 12 months shall be as follows:

- 1. 12-Month Policies—Charge the annual rates or minimum premiums, whichever apply. Compute the premium at the rates in effect at the policy inception.
- 2. 6-Month Policies—If a policy is written for a specified period of six months, the premium for the policy shall be 50%, respectively, of the one year premium.

This provision shall not apply to the following classes of risks:

- ~~a. Risks subject to the experience rating plan~~
- b. Risks classified as public auto

B. Long Term Policies

For policies issued for more than one year, compute the premium at the rates in effect on each anniversary date of the policy's inception for each annual period. Use Calculation Of Premium Endorsement IL 00 03.

Rule 5. FACTORS OR MULTIPLIERS

Factors or multipliers are to be applied consecutively and not added together, unless otherwise specified.

Rule 6. PREMIUM ROUNDING

Each company may adopt and utilize its own auto insurance premium rounding rule, provided the company is consistent in the application of the rule.

Rule 7. MINIMUM PREMIUM

- A. Unless otherwise provided in this Manual, the minimum annual premium charge is \$200 subject to no reduction for each policy covering one or more of the following perils:

- Bodily injury liability
- Property damage liability

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NORTH CAROLINA REINSURANCE FACILITY
COMMERCIAL AUTOMOBILE MANUAL

COMMON COVERAGES SECTION

Rule 11. HOW TO CLASSIFY AUTOS

- A. If an auto has more than one use, use the highest rated classification, unless 80% of the use is in a lower rated activity. In that case, use the lower rated classification.
- B. Classify and rate autos of the private passenger type according to the Private Passenger Types Rule (Rule 12).
- C. Classify and rate autos of the truck type that transport property or are used in business according to the Trucks, Tractors, and Trailers Section.
- D. Classify and rate buses, taxicabs, and other autos that are used in the business of transporting people according to the Public Transportation Section.
- E. Classify and rate new and used auto dealers according to the Garage Section.
- F. Classify and rate autos that do not fit into these categories according to the Special Types and Operations Section.

Rule 12. PRIVATE PASSENGER TYPES

Fleet-Class Code 7398

- A. A private passenger auto is
 1. a four-wheel motor vehicle, other than a truck type or van, owned or leased under contract for a continuous period of at least six months, and
 - a. Not used as a public or livery conveyance for passengers.
 - b. Not rented to others.
 2. a pickup truck or van that
 - a. is owned by an individual or by a husband and wife or individuals who are residents of the same household;
 - b. has a gross vehicle weight as specified by the manufacturer of less than 14,000 pounds; and
 - c. is not used for the delivery or transportation of goods and materials unless such use is
 - (1) incidental to your business of installing, maintaining, or repairing furnishings or equipment; or
 - (2) for farming or ranching.
- B. The rates displayed on the rate schedules for private passenger types apply to all private passenger autos which are rated as part of a fleet ~~or which are eligible to be experience-rated for liability coverages.~~

A fleet is any risk with five or more motor vehicles owned or hired under a long term contract.

EXCEPTIONS:

Five or more four-wheel private passenger autos owned by an individual or owned jointly by two or more individuals resident in the same household which are not used for business use, other than farming or ranching, and which are covered under a Personal Auto Policy shall not be considered a fleet.

- C. Private passenger nonfleet motor vehicles must be written on a Personal Auto Policy and rated out of the Personal Auto Manual.

EXCEPTIONS:

A private passenger nonfleet auto may be written on a commercial auto policy if

1. the vehicle is owned by an individual, husband and wife resident of the same household, or jointly by two or more individuals other than husband and wife, and the vehicle is written in conjunction with at least one commercial risk; or
2. the vehicle is not owned by a natural person.

However, these vehicles must be rated out of the Personal Auto Manual and coded as private passenger nonfleet for statistical purposes.

D. Premium Determination

1. Determine the rating territory from the territory definitions based on the street address of principle garaging.
2. Premiums for private passenger types are displayed on the rate schedules for the following:
 - a. Bodily injury liability
 - b. Property damage liability
 - c. Medical payments
3. The Private Passenger Types rates displayed on the rate schedules apply to all private passenger autos which are rated as part of a fleet ~~or which are eligible to be experience-rated for liability coverages.~~
4. For uninsured and underinsured motorist insurance, refer to the Uninsured and Underinsured Motorists Insurance Rule (Rule 20).

E. Classifications and Codes

1. Fleet Classification—Use code 7398.
2. Nonfleet—Use North Carolina Rate Bureau/ Reinsurance Facility Endorsement CA 01 99 when insuring nonfleet private passenger autos on a commercial auto policy. Code as private passenger nonfleet for statistical purposes.

Rule 13. FARMERS AUTOS

Class Code 7399

A. Eligibility

This Rule applies to private passenger autos, pickups, panel trucks, and vans rated as part of a fleet which meet all the following qualifications:

1. Principally garaged on a farm or ranch
2. Owned by an individual or husband and wife resident in the same household, or by a farm family partnership or corporation
3. Not used in any occupation other than farming or ranching
4. Not used in going to and from work other than farming or ranching

B. Premium Computation

Charge 70% of the Private Passenger Types rate shown on the rate schedules.

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COMMERCIAL AUTOMOBILE MANUAL

COMMON COVERAGES

Rule 19. MEDICAL PAYMENTS

- A. The premiums for trucks, tractors, trailers, public autos, and private passenger types are on the rate schedules.
- B. For zone rated risks, refer to the zone rating tables.
- C. For all other classes, refer to the section Rules.
- D. For premiums for limits not shown, refer to the Increased Limits Rule (Rule 22).
- ~~E. This coverage is not subject to an experience-rating modification.~~
- E.** F. Use Auto Medical Payments Coverage Endorsement CA 99 03.

Rule 20. UNINSURED AND UNDERINSURED MOTORISTS INSURANCE

For purposes of this Rule, the following definitions apply:

A commercial motor vehicle is defined as (1) any single motor vehicle with a GVWR of at least 26,001 pounds; (2) a combination of motor vehicles that has a combined GVWR of at least 26,001 pounds and includes as part of the combination a towed unit that has a GVWR of at least 10,001 pounds; (3) a combination of motor vehicles that includes a towing unit that has a GVWR of at least 26,001 pounds and a towed unit that has a GVWR of less than 10,001 pounds; (4) a motor vehicle that is designed to transport 16 or more passengers, including the driver; or (5) a motor vehicle transporting hazardous materials and required to be placarded in accordance with 49 C.F.R. Part 172, Subpart F.

A noncommercial motor vehicle is defined as any motor vehicle that is not a commercial motor vehicle as defined above, but that is otherwise subject to the requirements of North Carolina's Motor Vehicle Safety and Financial Responsibility Act of 1953.

A. Uninsured Motorists Coverage Only

- 1. Owners—(Class Code—Refer to statistical plan.)

Bodily injury and property damage uninsured motorists coverage shall be afforded under every auto liability policy insuring the owner of a motor vehicle registered or principally garaged in North Carolina.

EXCEPTIONS:

- This coverage shall not apply when the insured has purchased bodily injury liability limits greater than \$30,000/\$60,000.
- For policies insuring only commercial motor vehicles or a fleet of only noncommercial motor vehicles, uninsured motorists coverage is not mandatory and will apply only if purchased by the insured.

For the purpose of determining whether a policy is applicable solely to fleet vehicles, an insurer may rely upon the number of vehicles reported by the insured at the time of issuance of the policy for the policy term in question. In the event of a renewal of the policy, when determining whether a policy is applicable solely to fleet vehicles, the insurer may rely upon the number of vehicles reported by the insured at the time of renewal of the policy for the policy term in question.

Note: For any fleet or nonfleet policy insuring both commercial and noncommercial motor vehicles with bodily injury liability limits not greater than \$30,000/\$60,000, uninsured motorists coverage only is mandatory and shall be afforded.

a. Basic Limits

The limits of uninsured motorists bodily injury coverage shall be \$30,000/\$60,000 unless the insured purchases a higher limit of uninsured motorists bodily injury coverage but in no event shall an insurer be required to sell uninsured motorists bodily injury coverage at limits that exceed \$1,000,000/1,000,000. The limit of uninsured motorists property damage coverage shall equal the highest limit of liability for property damage liability coverage for any one non-commercial motor vehicle insured under the policy, provided, however, that (1) the limits shall not be required to exceed \$1,000,000 regardless of whether the highest limits of property damage liability coverage for any one vehicle insured under the policy exceed those limits, and (2) a named insured may purchase lesser limits of uninsured motorists property damage coverage but not less than the property damage liability limits required by North Carolina's financial responsibility law.

Each time a policy is issued or renewed, the insurer shall notify the named insured as provided in paragraph C of this Rule.

Basic limits of uninsured motorists coverage are \$30,000/\$60,000 bodily injury and \$25,000 property damage. Uninsured motorists property damage coverage is subject to an exclusion of the first \$100 of damage.

If provided, this coverage must apply to all autos insured under the policy at the limits determined in this Rule.

Rate—Charge the following for each auto insured under the policy.

- (1) Individual or Married Couple (Other than Garage Risks)—Per Auto
 - Private Passenger Types \$15
 - Other than Private Passenger Types 8
- (2) Garage Risks
 - \$6 for each set of dealer or transporter plates in addition to the premium charged for any separately registered autos
- (3) All Others—Per Auto
 - Private Passenger Types \$13
 - Other than Private Passenger Types 6

This rate is not subject to modification under the provisions of any rating plan or other Manual rule.

Punitive damages must be excluded from all policies providing uninsured and/or underinsured motorists coverage. Use Endorsement CA 21 71.

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~~**NORTH CAROLINA REINSURANCE FACILITY
COMMERCIAL AUTOMOBILE MANUAL
EXPERIENCE RATING PLAN SECTION**~~

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NORTH CAROLINA REINSURANCE FACILITY
COMMERCIAL AUTOMOBILE MANUAL

~~EXPERIENCE RATING PLAN SECTION~~

Rule 81. ELIGIBILITY

~~Every risk which is eligible shall be experience rated under the rules of this Plan. The term "risk" as used in this Plan means the exposures of any one insured which are to be rated. Allied or subsidiary interests shall not be included unless the insured holds a majority financial interest therein. (See Supplementary Provisions in this Section applicable to the How to Classify Autos Rule (Rule 11) regarding combination of entities.)~~

~~Any risk meeting the following qualifications for the bodily injury and property damage liability exposures to be rated shall be eligible for the application of this Plan:~~

- ~~A. Five or more private passenger or commercial autos (excluding trailers and semitrailers) or three or more public autos, or the equivalent of such exposure for autos hired by the risk, or~~

Exception:

~~Five or more four-wheel private passenger autos owned by an individual or owned jointly by two or more individuals resident in the same household which are not used for business use, other than farming or ranching, and which are covered under a Personal Auto Policy shall not be eligible under this paragraph A.~~

- ~~B. An estimated basic limits annual Manual premium of at least \$6,500 for three or more autos of any type (excluding trailers and semitrailers), or the equivalent of such exposure for autos hired by the risk, or~~
- ~~C. An estimated basic limits annual Manual premium of at least \$6,500 if a garage.~~

Exception:

~~If there is no owned or hired auto exposure or if the owned and hired auto exposure is not sufficient to qualify for the application of this Plan, any risk which develops a basic limits annual Manual premium of \$6,500 or more for bodily injury and property damage employers nonownership liability exposures shall be eligible for the application of this Plan. The headquarters location of the risk shall govern the application of this Plan for all employers nonownership liability exposures regardless of location.~~

Rule 82. RATING PROCEDURE

~~The experience modification for the risk shall be determined in accordance with the experience rating procedure described herein.~~

~~If the owned and hired autos of a risk are subject to a modification developed in accordance with this Plan, such modification must also be applied to the employers nonownership liability exposures provided the premiums and losses for such exposures are included in the development of the modification.~~

Rule 83. EXPERIENCE USED

~~*The experience modification shall be determined from the latest available three years' experience incurred by the company establishing the rating in this State, or in all states, for the forms of auto liability insurance to be rated. In the event the experience for the full experience period is not available, at least twelve months experience shall be used. If there is a~~

~~lapse in coverage during the experience period, please disregard the lapse in coverage and treat the experience as if there had been no lapse in coverage. The experience period shall end at least six months prior to the rating date.*~~

~~Experience incurred by companies other than the company establishing the rating must be used subject to the periods specified above. In the event that such experience cannot be obtained by the current carrier, it shall be obtained by the North Carolina Reinsurance Facility upon notification by the carrier. No self-insured experience shall be used in determination of the experience modification.~~

Rule 84. DETERMINATION OF EXPERIENCE MODIFICATION

~~The term "basic limits" shall mean the following limits of liability:~~

~~\$30,000/60,000 bodily injury limits and a \$25,000 property damage limit~~

~~"Basic limits" shall also mean the policy limits for those policies that were written during the experience period at limits less than those mentioned above.~~

A. Basic Limits Premium Subject to Experience Rating

~~The basic limits premium shall be the collected premium for the experience period for bodily injury liability and property damage liability coverages only (excluding premiums for medical payments, uninsured motorists, and underinsured motorists coverages) converted to a basic limits basis and adjusted to eliminate the effect of any experience or other rate modification applied.~~

B. Basic Limits Losses Subject to Experience Rating

~~The losses to be included in the rating shall be the total of the following:~~

- ~~1. Paid and outstanding losses (including allocated claim expense) for each year in the experience period, with the indemnity amount limited to basic limits, and with the amount of indemnity and allocated claim expense resulting from any single occurrence limited by the maximum single loss value (MSL) specified in TABLE B based on the basic limits premium subject to experience rating.~~
- ~~2. Adjustment to reflect ultimate level of losses for each year in the experience period, calculated by multiplying the premium (P) for that year by the adjusted expected loss ratio (AELR) and by the appropriate basic limits loss development factor (LDF), where~~
 - ~~a. P is the adjusted basic limits premium for the particular type of coverage for each year in the experience period;~~
 - ~~b. AELR is the adjusted expected loss ratio specified in TABLE B based on the total basic limits premium subject to experience rating;~~
 - ~~c. LDF is the appropriate basic limits loss development factor applicable to expected losses (Premium x AELR). TABLE A displays LDFs by type of coverage and maturity* (see Example as follows).~~

~~*See Supplement in this Section, regarding use of immature losses due to change of carrier.~~

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~~EXPERIENCE RATING PLAN~~

~~Medical payments, uninsured motorists, and underinsured motorists losses shall be excluded.~~

C. Actual Loss Ratio

~~Determine the actual loss ratio by dividing the basic limits losses subject to experience rating by the basic limits premium subject to experience rating. This calculation shall be carried to three decimal places.~~

D. Credibility

~~The credibility for the risk is obtained from TABLE B, based on the total basic limits premium subject to experience rating.~~

E. Experience Modification

- ~~1. If the actual loss ratio is less than the adjusted expected loss ratio, the experience modification is a credit which shall be determined as follows:~~

$$\left(\frac{\text{Adjusted Expected Loss Ratio} - \text{Actual Loss Ratio}}{\text{Adjusted Expected Loss Ratio}} \right) \times \text{Credibility} = \text{Experience Modification}$$

- ~~2. If the actual loss ratio is greater than the adjusted expected loss ratio, the experience modification is a debit which shall be determined as follows:~~

$$\left(\frac{\text{Actual Loss Ratio} - \text{Adjusted Expected Loss Ratio}}{\text{Adjusted Expected Loss Ratio}} \right) \times \text{Credibility} = \text{Experience Modification}$$

~~This calculation shall be carried to three decimal places.~~

~~The experience modification shall be rounded to two decimal places.~~

Rule 85. TENTATIVE EXPERIENCE MODIFICATION

~~If complete experience rating data are not available at the time of policy issuance, a tentative experience modification of 1.50 shall be applied in rating the policy.~~

Exception: ~~In cases where the experience modification applicable to the preceding term of the policy is higher than 1.50, such higher experience modification must be applied as the tentative experience modification for the current term.~~

~~Whenever a tentative experience modification has been applied, endorse the policy (1) noting application of the tentative experience modification, and (2) to provide for subsequent application of any experience modification determined in accordance with this Plan.~~

Matter underlined is new.
 Matter ~~struck through~~ is deleted.

NORTH CAROLINA REINSURANCE FACILITY
 COMMERCIAL AUTOMOBILE MANUAL

EXPERIENCE RATING PLAN

Example: Calculation of Modification to be effective on January 1, 2015.

Suppose that we have an insured with auto liability BI and PD exposures whose adjusted basic limits premium and paid and outstanding losses for the experience period are as follows:

YEAR	ADJUSTED BASIC LIMITS PREMIUM		LOSSES (INCLUDING ALLOCATED CLAIM EXPENSE)*	
	BI	PD	BI	PD
1/1/11 - 12/31/11	\$5,000	\$2,000	\$1,800	\$700
1/1/12 - 12/31/12	5,000	3,500	2,000	200
1/1/13 - 12/31/13	7,000	3,000	600	300
TOTAL =	\$25,500			

*basic limits incurred losses limited by MSL and evaluated as of 9/30/14.

The total basic limits premium subject to experience rating is \$25,500 so the appropriate adjusted expected loss ratio from TABLE B is .473 and the appropriate maximum single loss is \$16,450 (for this example, we assume that the insured is an "All Other" risk not Publics or Zone Rated).

The appropriate loss development factors from TABLE A are:

For Policy Effective:	BI	PD
1/1/11 (45 months)	.011	.000
1/1/12 (33 months)	.028	.002
1/1/13 (21 months)	.075	.011

Thus the basic limits losses for each year are as follows:

BASIC LIMITS LOSSES =	(PREMIUM times AELR times LDF) plus	PAID AND OUTSTANDING LOSSES
(2011 BI) =	\$(5,000) X (.473) X (.011) +	\$1,800 =
(2011 PD) =	(2,000) X (.473) X (.000) +	700 =
(2012 BI) =	(5,000) X (.473) X (.028) +	2,000 =
(2012 PD) =	(3,500) X (.473) X (.002) +	200 =
(2013 BI) =	(7,000) X (.473) X (.075) +	600 =
(2013 PD) =	(3,000) X (.473) X (.011) +	300 =
TOTAL		\$5,959

The actual loss ratio used in the experience modification formula is \$5,959 ÷ 25,500 or .234.

The credibility factor from TABLE B is .21.

Therefore the unadjusted experience modification is:

$$EM = \frac{(.473 - .234)}{.473} \times .21 = .106$$

And the experience modification is: 1 - .106 = .894

TABLE A
BASIC LIMITS LOSS DEVELOPMENT FACTORS

	Latest Policy Year (18 Months)	Prior Policy Year (30 Months)	Next Prior Policy Year (42 Months)
Auto Liability — BI; 30/60	.099	.032	.016
Auto Liability — PD	.016	.003	.000
Auto Liability — BI; 30/60	.075	.028	.011
Auto Liability — PD	.011	.002	.000
Auto Liability — BI; 30/60	.054	.024	.007
Auto Liability — PD	.007	.001	.000
Auto Liability — BI; 30/60	.037	.021	.003
Auto Liability — PD	.004	.000	.000

Note: These factors are to be applied to the product of the AELR and the premium for the particular coverage and year in order to determine the adjustment to reflect ultimate level of losses.

If breakdown of the premium by coverage is not available, an average LDF shall be obtained by combining the applicable factors by coverage, taking into consideration the amount of the risk's total exposures or losses in each category as of the last survey or evaluation.

Matter underlined is new.
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NORTH CAROLINA REINSURANCE FACILITY
 COMMERCIAL AUTOMOBILE MANUAL

~~EXPERIENCE RATING PLAN~~

TABLE B
~~AUTOMOBILE LIABILITY EXPERIENCE RATING~~
~~CREDIBILITY AND MAXIMUM SINGLE LOSS TABLE~~

Premium	Credibility	Adjusted Expected Loss Ratio		Maximum Single Loss	
		Publics & Zone Rated	All Others	Publics & Zone Rated	All Others
\$ 475 1,439	.01	.285	.252	\$ 4,050	\$ 3,600
1,440 2,423	.02	.391	.344	8,450	7,450
2,424 3,427	.03	.423	.374	10,250	9,050
3,428 4,452	.04	.441	.389	11,350	10,000
4,453 5,500	.05	.452	.400	12,100	10,700
5,501 6,569	.06	.461	.409	12,700	11,250
6,570 7,662	.07	.468	.415	13,150	11,700
7,663 8,778	.08	.474	.421	13,600	12,100
8,779 9,919	.09	.480	.425	14,050	12,450
9,920 11,086	.10	.484	.430	14,400	12,800
11,087 12,279	.11	.489	.435	14,800	13,150
12,280 13,500	.12	.494	.439	15,150	13,450
13,501 14,748	.13	.498	.443	15,500	13,800
14,749 16,026	.14	.502	.447	15,850	14,100
16,027 17,334	.15	.507	.451	16,250	14,450
17,335 18,673	.16	.510	.454	16,600	14,750
18,674 20,045	.17	.514	.458	16,950	15,100
20,046 21,450	.18	.518	.462	17,300	15,450
21,451 22,891	.19	.522	.466	17,700	15,800
22,892 24,367	.20	.526	.469	18,050	16,100
24,368 25,882	.21	.530	.473	18,450	16,450
25,883 27,435	.22	.534	.477	18,850	16,850
27,436 29,029	.23	.538	.481	19,250	17,200
29,030 30,665	.24	.541	.484	19,650	17,550
30,666 32,345	.25	.545	.488	20,050	17,950
32,346 34,071	.26	.549	.492	20,500	18,350
34,072 35,844	.27	.552	.495	20,900	18,750
35,845 37,667	.28	.556	.499	21,350	19,150
37,668 39,542	.29	.560	.503	21,800	19,600
39,543 41,471	.30	.564	.507	22,300	20,050
41,472 43,456	.31	.568	.510	22,800	20,450
43,457 45,500	.32	.571	.514	23,250	20,950
45,501 47,605	.33	.575	.517	23,800	21,400
47,606 49,774	.34	.579	.521	24,300	21,900
49,775 52,011	.35	.582	.525	24,850	22,400
52,012 54,318	.36	.586	.528	25,400	22,900
54,319 56,700	.37	.589	.532	25,950	23,450
56,701 59,158	.38	.593	.536	26,550	24,000
59,159 61,698	.39	.597	.539	27,150	24,550
61,699 64,323	.40	.600	.543	27,800	25,150
64,324 67,038	.41	.604	.547	28,400	25,750
67,039 69,847	.42	.607	.550	29,100	26,350
69,848 72,756	.43	.611	.554	29,750	27,000
72,757 75,770	.44	.614	.557	30,450	27,650
75,771 78,894	.45	.618	.561	31,200	28,350
78,895 82,135	.46	.624	.564	31,950	29,050
82,136 85,500	.47	.624	.568	32,700	29,750
85,501 88,995	.48	.628	.571	33,550	30,500
88,996 92,628	.49	.631	.575	34,350	31,300
92,629 96,409	.50	.634	.578	35,250	32,100

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NORTH CAROLINA REINSURANCE FACILITY
 COMMERCIAL AUTOMOBILE MANUAL

~~EXPERIENCE RATING PLAN~~

TABLE B
~~AUTOMOBILE LIABILITY EXPERIENCE RATING~~
~~CREDIBILITY AND MAXIMUM SINGLE LOSS TABLE~~

Premium	Credibility	Adjusted Expected Loss Ratio		Maximum Single Loss	
		Publics & Zone Rated	All Others	Publics & Zone Rated	All Others
\$ 96,410 - 100,345	.51	.637	.584	\$ 36,100	\$ 32,950
100,346 - 104,447	.52	.640	.585	37,050	33,850
104,448 - 108,725	.53	.643	.588	38,000	34,750
108,726 - 113,192	.54	.646	.594	39,000	35,700
113,193 - 117,859	.55	.649	.594	40,050	36,650
117,860 - 122,741	.56	.652	.597	41,150	37,700
122,742 - 127,852	.57	.655	.600	42,300	38,750
127,853 - 133,210	.58	.657	.603	43,500	39,850
133,211 - 138,833	.59	.660	.606	44,700	41,050
138,834 - 144,740	.60	.663	.609	46,000	42,250
144,741 - 150,954	.61	.665	.611	47,350	43,500
150,955 - 157,500	.62	.668	.614	48,800	44,850
157,501 - 164,404	.63	.670	.617	50,250	46,250
164,405 - 171,697	.64	.673	.619	51,850	47,700
171,698 - 179,413	.65	.675	.622	53,500	49,250
179,414 - 187,589	.66	.677	.624	55,200	50,900
187,590 - 196,269	.67	.679	.626	57,050	52,600
196,270 - 205,500	.68	.684	.629	59,000	54,400
205,501 - 215,336	.69	.683	.634	61,050	56,350
215,337 - 225,838	.70	.685	.633	63,250	58,400
225,839 - 237,078	.71	.687	.635	65,550	60,600
237,079 - 249,136	.72	.689	.637	68,050	62,900
249,137 - 262,103	.73	.694	.639	70,700	65,400
262,104 - 276,088	.74	.692	.640	73,550	68,050
276,089 - 291,214	.75	.694	.642	76,600	70,900
291,215 - 307,627	.76	.695	.644	79,950	74,000
307,628 - 325,500	.77	.697	.645	83,500	77,350
325,501 - 345,034	.78	.698	.647	87,400	81,000
345,035 - 366,475	.79	.699	.648	91,650	84,950
366,476 - 390,115	.80	.704	.650	96,250	89,250
390,116 - 416,340	.81	.702	.654	101,400	94,050
416,341 - 445,500	.82	.703	.652	107,050	99,300
445,501 - 478,227	.83	.704	.653	113,300	105,150
478,228 - 515,177	.84	.705	.654	120,350	111,700
515,178 - 557,224	.85	.706	.655	128,300	119,100
557,225 - 605,500	.86	.706	.656	137,300	127,500
605,501 - 661,500	.87	.707	.657	147,600	137,100
661,501 - 727,239	.88	.708	.657	159,600	148,250
727,240 - 805,500	.89	.708	.658	173,600	161,300
805,501 - 900,236	.90	.709	.659	190,300	176,800
900,237 - 1,017,264	.91	.709	.659	210,500	195,600
1,017,265 - 1,165,500	.92	.710	.659	235,400	218,750
1,165,501 - 1,359,346	.93	.710	.660	266,950	248,100
1,359,347 - 1,623,684	.94	.710	.660	308,150	286,400
1,623,682 - 2,005,500	.95	.710	.660	364,300	338,650
<u>2,005,501 - 2,605,500</u>	<u>.96</u>	<u>.711</u>	<u>.664</u>	<u>445,400</u>	<u>414,050</u>
2,605,501 - 3,685,500	.97	.711	.664	572,800	532,500
3,685,501 - 6,205,500	.98	.711	.664	802,050	745,650
6,205,501 - 18,805,500	.99	.711	.664	1,336,950	1,242,950
<u>18,805,501 and over</u>	<u>1.00</u>	<u>.711</u>	<u>.664</u>	<u>4,011,200</u>	<u>3,729,100</u>

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NORTH CAROLINA REINSURANCE FACILITY
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~~EXPERIENCE RATING PLAN~~

~~SUPPLEMENT TO THE LIABILITY EXPERIENCE RATING PLAN~~

~~Rule 86. TREATMENT OF IMMATURE LOSSES DUE TO CHANGE OF CARRIER~~

~~In cases where an insured changes or has changed carriers, the company establishing the rating may be unable to obtain current valuations of past losses from previous carriers. If this happens, the maturity of the experience obtained from previous carriers must be carefully examined and the appropriate loss development factors selected. The maturity of the losses for any year in the experience period is defined as the number of months between the date of the latest loss valuation and the effective date of the policy to which these losses are assignable. A given year's losses cannot mature unless the losses are revalued. The loss development factors applicable at the time of the most recent valuation must be used in subsequent ratings as long as updated valuations are not available. A specific instance of this can be seen when the experience provided by previous carriers contains fragmented periods, such as nine (or six) months of losses which were segments of policy years valued as of nine (or six) months after the policy effective date and for which subsequent valuations were unable to be obtained. If it is necessary to include this experience in subsequent ratings, factors must be applied which project nine (or six) months of losses to a complete policy year ultimate paid basis. 6, 9, 12, and 15 month basic limits loss development factors are included in this supplement.~~

~~The existence of these supplementary loss development factors does not alter the requirements set forth in the Experience Used Rule (Rule 83) of the Experience Rating Plan.~~

BASIC LIMITS LOSS DEVELOPMENT FACTORS		
	Six Month Maturity	Nine Month Maturity
Auto Liability — BI; 30/60	.619	.399
Auto Liability — PD	.522	.277
	12 Month Maturity	15 Month Maturity
Auto Liability — BI; 30/60	.171	.130
Auto Liability — PD	.030	.022

~~**Note:** These factors are to be applied to the product of the AELR and the premium for the particular coverage and year in order to determine the adjustment to reflect ultimate level of losses.~~

~~If breakdown of the premium by coverage is not available, an average LDF shall be obtained by combining the applicable factors by coverage, taking into consideration the amount of the risk's total exposures or losses in each category as of the last survey or evaluation.~~

~~EXPERIENCE RATING PLAN
SUPPLEMENT~~

**Rule 87. EXPERIENCE RATING PLAN
SUPPLEMENT**

~~The following supplementary provisions are applicable to this Plan with respect to the Rules noted below:~~

~~Combination of Entities and Use of Past Experience~~

~~A. Employees' and Officers' Autos~~

~~Experience on autos owned by officers or other employees of the risks shall not be used for determining the risks' experience modification. The experience modification established for a risk shall not apply to autos owned by officers or other employees of such risk.~~

~~B. Combination of Entities~~

- ~~1. Two or more entities (an individual, partnership, corporation, unincorporated association, fiduciary, or a group of co-fiduciaries) shall not be combined for rating purposes; provided, however, that combination shall be made as respects entities (other than fiduciaries) in each of which the same person, or group of persons, or corporation own a majority interest.~~
- ~~2. If an entity owns a majority interest in another entity which in turn owns the majority interest in another entity, all entities so related shall be combined regardless of the number of entities in succession.~~

~~In the term "majority interest", as used in this Rule, "majority" shall mean more than 50%.~~

~~If an entity other than a partnership~~

- ~~a. has issued voting stock, majority interest shall mean a majority of the issued voting stock;~~
- ~~b. has not issued voting stock, majority interest shall mean a majority of the members;~~
- ~~c. has not issued voting stock and has no members, majority interest shall mean a majority of the board of directors or comparable governing body.~~

~~If an entity is a partnership, majority interest shall be determined in accordance with the participation of each general partner in the profits of the partnership.~~

~~**Note:** If two or more different combinations are possible in accordance with provisions of this Rule, the combination involving the greatest number of entities shall be made. The experience of any entity used in such a combination shall not otherwise be used in combination with any other entity.~~

~~The experience to be used in a rating combination shall be subject to the provisions of the rule "Change of Ownership" of this Section.~~

~~C. Merger or Consolidation~~

~~Merger—If two or more entities are merged so that the ownership interest (as defined in the Determination of Experience Modification Rule (Rule 84)) of all such entities are combined in the surviving entity, the incurred experience of all such merged entities shall be used for experience rating the surviving entity.~~

~~Consolidation—If two or more entities are consolidated by replacing them with a new entity combining the ownership interest (as defined in the Determination of Experience Modification Rule (Rule 84) of the prior entities), the incurred experience of all such consolidated entities shall be used for experience rating the new entity.~~

~~D. Change of Control, Management, Name, Operations, or Ownership~~

- ~~1. If there is a change in control, management, name, or operations, not accompanied by any change in ownership interest, incurred experience shall be used in future ratings.~~
- ~~2. If there is a change in ownership interest, either alone or accompanied by a change in control, management, name, or operations (other than as respects mergers or consolidations covered by the Experience Used Rule (Rule 83) of this Section) incurred experience shall be used in future ratings.~~

~~Exceptions: Incurred experience shall not be used in the future ratings (other than as provided under paragraph 3 of this Rule) of the entity undergoing change:~~

- ~~a. when the entire ownership interest after the change had no ownership interest before the change, or~~
- ~~b. When the collective ownership interest of all those having such an interest in the entity both before and after the change in ownership amounts to either (1) less than 33 1/3% of the ownership interest before the change, or (2) less than 50% of the ownership interest after the change.~~

~~**Note:** In the application of this exception, an analysis shall be made to determine the individuals holding ownership interest in any entity, whether the entity be the one being rated or any other entity in any way connected, directly or indirectly, in any chain of ownership with the risk being rated.~~

- ~~3. If there is a change in ownership among members of an immediate family, the experience for all entities shall be used in future experience ratings of the risk. For purposes of this Rule, members of an immediate family shall include a spouse, father, mother, son, daughter, brother, sister, half brother, half sister, step brother, step sister, step child, step parent, grandchild, or grandparent.~~
- ~~4. Ownership interest~~
 - ~~a. of any corporation shall be determined on the basis of the ownership of the issued voting stock of any such corporation;~~
 - ~~b. if there is no issued voting stock shall be determined on the basis of its members if the entity is other than a partnership;~~
 - ~~c. if there is neither issued voting stock nor members shall be determined on the basis of the board of directors or comparable governing body if the entity is other than a partnership;~~

Matter underlined is new.
Matter ~~struck through~~ is deleted.

NORTH CAROLINA REINSURANCE FACILITY
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~~EXPERIENCE RATING PLAN
SUPPLEMENT~~

- d. ~~of any partnership shall be determined in accordance with the participation of each general partner in the profits of the partnership;~~
- e. ~~shall be deemed to be vested in a fiduciary when a fiduciary is involved. However, "fiduciary" shall not include a debtor in possession or a trustee under a revocable trust.~~

E. Joint Ventures

~~When two or more contractors associate for the purpose of undertaking one or more construction, erection, or demolition projects as a joint venture, the rates applicable to the operations involved in such venture shall be subject to the experience modifications, which shall be the arithmetical average of the experience modifications of the joint contract ventures, in force on the effective date of the policy covering the joint venture (using unity (1.00) for the experience modification for any contract venturer who is not subject to experience rating), subject, however, to the following conditions:~~

1. ~~The contract(s) shall be awarded in the name of the associated contractors as a joint venture.~~
2. ~~The joint venturers shall share responsibility for, and participate in the control, direction, and supervision of, all work undertaken.~~
3. ~~The joint venturers shall maintain a common bank account, payroll, and business records.~~

~~The arithmetical average experience modifications aforementioned shall be effective as of the inception date of the initial policy covering the joint venture and shall be applicable for a period of 12 months. At the end of that period, and annually thereafter on a rating anniversary determined in accordance with the provisions of the Automobile Liability Experience Rating Plan, new arithmetical average experience modifications shall be calculated. When, however, the joint venture on the basis of its own developed experience qualifies for rating in accordance with the provisions of the Automobile Liability Experience Rating Plan, the experience modifications for the future rating of the venture shall be based on such experience exclusively.~~

~~Experience modifications determined in accordance with the foregoing shall be applicable for their effective period to all policies covering the identical contractors collectively as joint venturers.~~

~~The experience developed under a joint venture shall be excluded from the future rating of the individual contractors.~~

Rules 88–90. RESERVED FOR FUTURE USE

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NORTH CAROLINA REINSURANCE FACILITY
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SUPPLEMENTARY RATING PROCEDURES SECTION

Rule 91. RETROSPECTIVE RATING PLAN
D—REINSURANCE FACILITY
RISKS

Retrospective Rating Plan D is not to be used in rating risks ceded to the North Carolina Reinsurance Facility.

Rule 92. RATING PROCEDURES—
REINSURANCE FACILITY RISKS

Gross receipts and mileage basis rating procedures and the Composite Rating Plan are not to be used in rating risks ceded to the North Carolina Reinsurance Facility.

Rule 93. RULE—~~EXPERIENCE RATING~~

~~The North Carolina Reinsurance Facility Automobile Liability Experience Rating Plan shall apply to all eligible risks. Refer to company for rating.~~

Rule 94. RULE FOR RATING SINGLE LIMIT
COVERAGES

The premium for a single limit per occurrence shall be calculated as follows:

- A. Apply a single discount of 3% to both the bodily injury and the property damage normal factors for separate limits equal to the desired single limit.
- B. Calculate the separate bodily injury and property damage premiums, the sum of which is the combined premium.

Example: Single Limit of \$50,000

(1)	(2)	(3)	(4)	(5)	(6)
Coverage	Basic Limits Premium (Rate)	Normal Factors For Separate Limits	Discount Factor	Factor (3) x [100 - (4)]	Increased Premium (2) x (5)
BI	\$620	1.48	3.0%	$1.48 \times .97 = 1.44$	\$ 892.80
PD	380	1.25	3.0	$1.25 \times .97 = 1.21$	459.80
					<u>\$1,352.60</u>

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