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Experience Modification Questions

1. ***The insured is not new business to our company; however, this is the first year our insured has been ceded to the Reinsurance Facility. Do we calculate an experience rating modification?***

Yes. You would use all prior voluntary data to calculate the experience rating modification for the upcoming ceded term.

Please see instructions within this website's FAQ's for help calculating an experience rating modification. There you will also find an Excel version of autonomous calculating forms ([NCRF-24 page 1](#)) and ([NCRF-24 page 2](#)). The **NCRF-24 page 1** worksheet will enable you to auto-calculate the experience modification by simply pre-filling certain criteria.

2. ***The insured just started up business this year with no prior history however; the policy appears to meet guidelines shown in the manual for an experience rating modification. Do we still apply the 1.50 tentative experience rating modification?***

No, a 1.00 manual rate modification applies until there is at least one full year that can be used to calculate an experience rating modification. **Do not consider the term from the year just prior to the modification date.**

(Note: the insured would have to be in business two years in order to use the 1 full year while at the same time omitting the year of data just prior to the modification.)

Exceptions:

- **Using one year of data** will only be acceptable **if** there is no other prior data (i.e. past business entities) or the Reinsurance Facility has advised you to do so.
- Please be advised that if the insured changes from one business and starts a new venture, all prior **data must be utilized regardless of what type of venture the insured was previously engaged in, unless the ownership had a "Material Change"** from the first venture to the second or is not the same for multiple ventures in which the insured has previously or currently been involved in.
- If ownership is in question, your company must submit an [NCRF-41](#) for a ruling on ownership. **Upon submitting an [NCRF-41](#),** the North Carolina Reinsurance Facility will advise your company of any entities that may be combined for experience rating purposes. (Refer to section #4 below titled "[What experience rating data can I use?](#)")

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3. *The insured is eligible for an experience rating modification however, we have not insured this risk for the entire experience period, and insured had coverages elsewhere. Can we calculate a modification using only our data?*

No, you may **not** use partial data to calculate an experience rating modification simply because you do not have the insured’s prior carrier information and data available at the time you issue or renew the policy. **You must apply the Tentative 1.50 Modification (Refer to Rule 85)** and submit Form [NCRF-36](#) with complete prior carrier information to Casey Cramer, Commercial Auditor (clc@ncrb.org) for assistance.

We will contact the other and/or prior liability carrier(s) and secure data for you. Upon receipt, the NCRF will forward the necessary experience data to your company where you will be responsible for calculation of the final modification using the prior carrier’s data. This may also include combination with your company’s data. **The final experience modification will be applied (change endorsement) back to inception and the Tentative Modification will be removed as of inception.**

4. *What experience rating data can I use?*

- a. You should use prior **data from all of the insured’s auto liability policies whether ceded, voluntary or any applicable Residual Market Plan during the experience period.** This includes all insurance companies who insured this risk, including any other states’ locations – **DO NOT USE SELF INSURED DATA.**
- b. **Experience data from any other ventures** which the insured owns currently and/or prior to, shall be combined even if there were multiple ventures or policies within the same term. (Please refer to NCRF Commercial Auto Manual Rule 81.)
- c. On a policy with “**registration plates** not issued for a specific automobile” (Rule 70), count each set of plates as a vehicle for experience rating purposes. If a policy covers registration plates and scheduled vehicles, these would be combined for fleet or non-fleet status as both premium rating and experience modification eligibility.
- d. Any written premiums data that is part of an auto liability coverage policy and **meets the criteria as set forth in the eligibility section in Rule 81.**
- e. Data from **non-admitted carriers can be utilized** to calculate experience modifications.

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EXPERIENCE RATING ELIGIBILITY AND EXAMPLES

(Experience Rating Plan Section Rule 81)

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 semi-trailers) 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' non-ownership liability exposures regardless of location.

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Eligibility Requirement Examples:

If an insured has more than one policy or a combination of auto premium and garage liability premium, **combine the basic limits premium** to determine if the risk meets the \$6,500 minimum premium eligibility requirement.

Example:

Basic Limit Premium Consideration

Policy A - \$4,500. Garage policy

Policy B - \$2,000. Auto policy w / 2 units scheduled
\$6,500.

When there are multiple policies, the risk may be eligible for experience rating if the **combined** number of vehicles equal 5 or more **OR** the combined **basic limits unmodified premium** for 3 units equals at least \$6,500 for the annual manual premium.

Example:

Combined number of units

2 units on Policy A (ceded to the reinsurance facility)

3 units on Policy B (retained in voluntary market)

Note: Each policy on its own would not qualify for experience rating; however, the number of units, when combined, will require **the ceded coverage of (Policy A) to be experience rated, classified and rated as fleet.**

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Instructions for determining pre-fill experience data to be used

Experience Rating Worksheet Autonomous Calculating

[\(NCRF-24 page 1\)](#)

[\(NCRF-24 page 2\)](#)

Please see Examples 1 and 2 at the end of this document and use the N.C. Reinsurance Facility Commercial Auto Manual when referring to the rules identified below:

1. **Policy Term (Rule 83)**

"....latest available three years....at least twelve months experience...experience period shall end at least six months prior to the rating date."

Policy Term Example: 2017 Modification Effective 03/01/17-18

Use these terms:

03/01/13-14

03/01/14-15

03/01/15-16

OMIT 2016-17 – omit the year just prior to the modification.

If you have broken policy terms that are not concurrent dates with the upcoming experience modification effective date, you use data in effect as much as 6 months prior to the oldest date, or that which ends 6 months prior to the upcoming experience date. 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. **DO NOT USE** any data that does not begin within the allowable dates or ends past the allowable dates. If in question, please feel free to contact Casey Cramer at clc@ncrb.org for assistance.

2. **Basic Limits Unmodified Premiums (Rule 84)**

Earned premiums should be reported at limits of 30/60/25 with BI and PD shown separately. Earned premium should include all (ceded and voluntary written) automobile liability premiums charged for any auto liability scheduled premium, premium change endorsements, and may include Hired, Non-Owned, Drive Other Car coverages as written on the policy.

Basic limits premiums however, should **not** include Med Pay or UM/UIM premiums, any General Liability premiums, or those coverages not eligible for cession to the North Carolina Reinsurance Facility **AND** any experience rating modification credits/debits should be removed that were originally applied to the terms. Any **loss cost multipliers** that were used to determine the base rate from the prior terms should remain in the premium to be reported in column # 2.

Policies written at **combined single limits need to be reported as split limits BI / PD.**

Helpful hint: you may use the ratio of BI and PD from the current issued policy to determine split combination from single limits for the purpose of the experience rating.

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3. Adjusted Expected Loss Ratio Table B. (Pages 72-73)

First, you will determine the “total premiums” amount shown at the bottom of column # 1 in order to find the factors that will apply in column # 3 (as shown below).

Next, use the chart shown in the manual on pages (72-73) to find the Adjusted Expected Loss Ratio factors applicable for either “public and zone rated” or “all-other” autos, whichever applies.

Helpful hint: navigate these charts as you would an income tax chart.

Example:

So, for all of your pre-fill examples below, assume you are using an “All Others” factor based off of a total column # 1 premium of **\$25,775.**

Looking at the chart, you will find the factor to be placed into NCRF-24 column # 3 is **.473**

4. Loss Development Factor (Page 71)

Determine the number of months between the loss evaluation date and the effective date of the policy to which the losses are assignable to determine factors for Column # 4.

Example:

The Loss Evaluation date (data gathering) is 2/28/17 for calculating the **03/01/17** experience rating mod.

On the NCRF commercial auto manual page, locate the block in the first column titled “Latest Policy Year” and determine the closest to the number of months from the effective date of the policy to which the losses are assignable to the date that the losses were most recently evaluated.

In this case you would use:

(24 months) Use these factors for the latest available policy term 03-01-2015/2016.

BI .054
PD .007

(36 months) Use these factors for the policy term 03-01-2014/2015.

BI .024
PD .001

(48 months) Use these factors for the earliest policy term 03-01-2013/2014.

BI .007
PD .000

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5. Basic Limits Incurred Losses (NCRF 24 Column # 6)

Record total BI and PD losses for each policy term. Note - If one loss date should exceed the maximum single loss value (MSL) then **apply the maximum single loss per accident** to which it applies, before determining losses to be entered in column # 6 (refer to loss examples below). Please provide a breakdown of these losses for audit purposes AND provide a copy of the current loss history when submitting data.

IMPORTANT: Please note that the MSL values will change each year in the calculations, so you will have to go back at each renewal and re-calculate MSL again based upon what the new column # 1 modifications total premiums are defined as. Keep in mind that loss reserves may change from year to year.

Example:

For the purpose of this example, keep in mind that \$16,450 is your current MSL value.

Suppose in 2013-14 you have 2 separate loss dates, each with losses of \$5,000 where in each loss the BI paid is \$2,000 and the PD paid is \$3,000. Add those losses together and record total for each in the column for corresponding year.

You would record the amounts below as the chargeable losses in Column # 6.

Term 2013-14:

BI \$4,000

PD \$6,000

You have no MSL to calculate for 2013-14.

Then, in 2014-15 you have 2 separate losses occurring on different dates. The first loss date has a PD only claim of \$250 which does not exceed the MSL amount. You also have a second loss date that has a \$30,000 total consisting of both a BI claim of \$18,500 and a PD claim of \$11,500. The total of the second accident exceeds MSL for the loss date. Remember, the most the insured can be charged in the experience calculation for the \$30,000 claim is \$16,450.

Now you must calculate the Maximum Single Loss chargeable for the \$30,000 loss.

Here is how you would do that:

2nd claim is \$30,000. (max single loss chargeable: \$ 16,450.)

Actual Paid Loss:

BI \$18,500.

PD \$11,500.

Total \$30,000. (18500 + 11500 = 30,000)

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Find percentage of each loss by dividing BI loss amount by the total loss amount.

	Paid	Total	
BI	18,500 ÷ 30,000 =	.617%	
PD	11,500 ÷ 30,000 =	.383%	

(.617 + .383 = 100%) be sure to check your math

Multiply the BI and PD percentages by the MSL value established of \$16,450.

BI (MSL) amount chargeable: \$16,450 x .617 = \$ 10,150.
PD (MSL) amount chargeable: \$16,450 x .383 = \$ 6,300.

(10,150 + 6,300 = 16,450 MSL)

Next, you will add your \$250 PD loss from first claim date to the MSL amounts calculated for the second claim date.

Record total of all *chargeable losses for 2014-15 year losses in column # 6

1 st Claim	BI \$0.	PD \$ 250.	(250)
2 nd Claim	<u>BI \$10,150.*</u>	<u>PD \$6,300.*</u>	(16,450)

Total: BI \$10,150. PD \$ 6,550. → these are amounts you would record in **column # 6** for the 2014-15 losses

IMPORTANT: You must include all **Liability Losses** in column # 6 including, **[Paid BI and PD, Open Reserved, and Expenses BI and PD for (both paid and reserved BI and PD expensed)]**.

6. Credibility factor to be applied on Lines 9 and 10 (Pages 72-73)

Using the example first provided of \$25,775 from the Column # 1 total and using pages 72-73, we can determine that the example credibility factor to be used should be .21 which is then **populated into the “credibility” section of both lines 9 and 10.**

The **credibility factor must be filled in on both lines**; the worksheet will auto calculate an “Actual Loss Ratio” in Line # 8, which in turn will be used to auto calculate the final mod, requiring use of the credibility factor as the last step in determining if the final modification should be an unadjusted credit or unadjusted debit.

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