



November 5, 2004

CIRCULAR LETTER TO ALL MEMBER COMPANIES

**IMPORTANT MATERIAL
TO BE IMPLEMENTED**

Re: **ADVANCE NOTICE OF RECOUPMENTS
TO BE IMPLEMENTED APRIL 1, 2005**

During a meeting held October 27, 2004, the Board of Governors of this Facility decided that with respect to the Facility's recoupment surcharges on Non-Fleet Private Passenger automobile business only:

- 1) The current "Clean Risks" recoupment will be revised and implemented April 1, 2005 for new and renewal policies effective on or after April 1, 2005 through March 31, 2006; and
- 2) A Loss recoupment will be implemented April 1, 2005 for new and renewal policies effective on or after April 1, 2005 through March 31, 2006.

To facilitate company programming, this information is provided to you in advance.. The Facility will distribute the new factor for the clean risk surcharge and the factor for the loss recoupment surcharge as soon as they are determined in December of 2004.

Please note:

- These April 1, 2005 clean risk and loss surcharges are to run concurrently.
- The implementation date for these surcharges will be **April 1, 2005, not July 1, 2005.** The current clean risk surcharge will continue to run through March 31, 2005.
- The "clean risks" recoupment period which began for policies effective on or after July 1, 2004 as advised in Circular RF-04-4 dated April 8, 2004 **will** continue to run through March 31, 2005 but will **now close with policies effective on March 31, 2005.**

"CLEAN RISKS" RECOUPMENT

For non-fleet private passenger automobile business, the Board of Governors voted that a "clean risks" recoupment surcharge would be applicable in accordance with law to policies issued to become effective during the twelve months beginning April 1, 2005. This surcharge is to offset a portion of the premium loss resulting from the fact that, as required by law, "clean risks" in the Facility are not charged actuarially sound and self-supporting rates.

LOSS RECOUPMENT

For non-fleet private passenger automobile business, the Board of Governors voted that a Loss recoupment surcharge to recoup losses sustained by the Facility would be applicable in accordance with law to policies issued to become effective during the twelve months beginning April 1, 2005.

SURCHARGE CALCULATION

Both the “clean risks” recoupment and loss recoupment surcharge will be applicable to the liability, medical payments, uninsured motorists and underinsured motorists coverage premiums for all non-fleet private passenger vehicles, including motorcycles, under all policies covering non-fleet private passenger vehicles issued to become effective during the twelve months beginning April 1, 2005. **This surcharge applies to policies ceded to the Facility as well as to policies retained voluntarily by member companies and is calculated on premium amounts at full manual rates, i.e. prior to the application of any deviations.**

The “clean risks” recoupment surcharge is subject to the payment of agent compensation. The recoupment surcharge applied to premiums should be the indicated percentage adopted by the Board of Governors **to be announced in December, 2004** adjusted to include agent compensation or commission. Surcharge rates must be rounded to the nearest hundredth of a percentage point in order to assure that proper agent compensation will be provided.

For your convenience, the following is an excerpt from the NCRF Standard Practice Manual to provide guidance on the definition and calculation of these surcharges. Please note that the following excerpt outlines procedures for recoupments on **all types of policies; the recoupments currently authorized apply only to policies covering non-fleet private passenger vehicles.**

Section 4, Chapter 13, Item C. Surcharges:

“The following are the guidelines applicable to the billing, collection, and recording of recoupment surcharges:

1. Surcharges apply on policies written to become effective during the time period announced by the Facility circulars. As to policies issued for a period of more than one year, the surcharge in effect at each anniversary of the policy effective date shall apply for the term, not to exceed one year, beginning on that date.
2. The surcharges are not considered or treated as written premiums, but on policies and billing statements the surcharges shall be combined with and displayed as a part of the applicable premium charges so that:
 - a. Under a single-vehicle policy the total amount of the applicable recoupment surcharges be divided equally and combined with the bodily injury and property damage liability premiums only.
 - b. Under a multi-vehicle policy the total amount of the applicable recoupment surcharges be divided equally among all vehicles and that the amount assigned to each vehicle be divided equally and combined with the bodily injury and property damage liability premiums only for each vehicle.

3. Since surcharges are not considered or treated as premiums
 - there are no escrow considerations;
 - there are no premium tax considerations;
 - there are no ceding or claim expense allowances on the surcharge amounts.
4. Surcharges are applicable only to liability coverages including bodily injury liability, property damage liability, medical payments, uninsured motorists, and underinsured motorists coverage premiums.
5. Exact surcharge amount (dollars and cents) must be charged and billed. Rounding is not permitted.
6. Detail records of surcharges are maintained at the company level. When required under Chapter 3., Paragraph J., member companies must submit a detail transaction listing to support surcharges reported to the Facility.
7. Policies may be canceled for non-payment of surcharge.
8. If a surcharged policy is canceled, there is an appropriate (pro rata, short rate or total) refund of the surcharges to the insured. Similarly, the surcharge(s) is adjusted in relation to additional or return premiums on transactions occurring after policy issuance.

[Item #9 does not apply to the current authorized recoupment surcharges.]

9. As to policies which are eligible for rating under the Safe Driver Insurance Plan and are written to become effective on or after October 1, 1981, recoupment surcharges may in some cases apply for only a portion of the policy term. Refer to G.S. 58-37-40(f) and the Safe Driver Insurance Plan to determine when recoupment surcharges must be added or deleted during the policy term.
10. On non-fleet private passenger car business to which any deviation from standard rates applies, the surcharge percentages otherwise applicable shall be adjusted so that the deviating company recovers the same dollar amount as would have been recovered had the surcharge percentages established by the Board of Governors been applied to the premium at standard rates.
11. The Plan of Operation requires payment of compensation to agents in relation to recoupment surcharges. The guidelines are as follows:
 - a. Compensation shall be paid by members of the North Carolina Reinsurance Facility to agents for services performed by such agents in relation to the collection of recoupment surcharges applicable to policies written to become effective on or after October 1, 1981.

- b. Such compensation amount shall be equal to an amount determined by multiplying (i) the percentage rate of compensation paid to agents by each member of the North Carolina Reinsurance Facility on business ceded to the Facility by (ii) the amount of the recoupment surcharge including the agent compensation. The minimum compensation to be paid to agents on business ceded to the North Carolina Reinsurance Facility, as provided in G.S. 58-37-30(a), is 5% of the policy premium for long haul trucking applicants and public passenger carrying vehicles other than school buses and 10% of the policy premium for other risks.
- c. The recoupment surcharge amount added to each policy premium subject thereto shall include the amount necessary for the member company to recover the compensation paid to the agent in addition to the amount determined by applying to such premium the percentage determined by the Board of Governors. For example, if (i) the percentage adopted by the Board of Governors is 11.7%, (ii) the policy covers a non-fleet private passenger automobile, and (iii) the company's compensation or commission rate for such business ceded to the Facility is 10%, then the recoupment surcharge percentage applied to the policy premium subject thereto is $.117 / .90 = .130$ or 13.0%. If the policy covers a taxicab and the company's compensation or commission rate on such business ceded to the Facility is 5%, the recoupment surcharge is $.117 / .95 = .123$ or 12.3%.

The amount of the recoupment surcharge shall be determined by multiplying the recoupment surcharge percentage by the policy premium subject thereto. For example, if the policy premium is \$180 and the recoupment surcharge percentage is 13.0% the amount of the recoupment surcharge is $\$180 \times .130 = \23.40 .

- d. For each recoupment the surcharge percentage applied to each policy premium subject thereto shall be the same regardless of whether the policy is ceded to the Facility or voluntarily retained by the member company. If for any reason a member company should elect to pay on voluntary business a higher percentage agent compensation or commission on recoupment amounts than it pays on business ceded to the Facility, the amount reported monthly to the Facility as recoupments written must be the same as would be reported if the compensation or commission were the same as on business ceded to the Facility.

For example, if (i) the policy covers a non-fleet private passenger automobile not ceded to the Facility (ii) the member company pays agent compensation or commission of 10% on such business ceded to the Facility, (iii) the recoupment surcharge amount determined in accordance with the above is \$23.40, and (iv) the company elects for any reason to pay the agent compensation or commission at the rate of 15%, then the amount reported to the Facility as recoupment written net of agent compensation or commission must be $.90 \times \$23.40$ or \$21.06, not $.85 \times \$23.40$ or \$19.89."

The Loss Recoupment surcharge is to be calculated in the exact same manner and is applicable for the same coverages as for the "clean risks" recoupment surcharge; however it will need to be reported to the Facility separately in the Monthly Recoupment Report

submitted to AIPSO. Please refer to the previous section and to Circular RF-04-4 for examples of the surcharge calculations.

CLOSINGS AND REPORTING REVISIONS

No recoupments will be closed at this time. Effective with the January 2005 accounting report (due at AIPSO by March 15, 2005), the recoupment surcharges are to be reported in the Monthly Recoupment Report submitted to AIPSO and the Surcharge Detail Report and identified as follows:

<u>Line code</u>	<u>Recoupment Type</u>	<u>Applicable to Policies effective</u>	<u>Which policies</u>	<u>Surcharge (before agent comp)</u>
3a15	Clean Risk	7/1/03-6/30/04	All PPNF	5.05%
3a16	Clean Risk	7/1/04-3/31/05*	All PPNF	5.35%
CR01	Clean Risk	4/1/05-3/31/06	All PPNF	To be announced
PP01	Loss	4/1/05-3/31/06	All PPNF	To be announced

* This recoupment period has been changed.

Please see to it that the above is brought to the attention of all interested personnel in your company responsible for programming, policy issuance or completing and submitting the monthly accounting reports. Questions regarding this circular should be directed to Amy Tart at 919-783-9790 or amt@ncrb.org.

Sincerely,

Edith T. Davis

Director, Reinsurance Facility

RF-04-15