

November 5 2009

CIRCULAR LETTER TO ALL MEMBER COMPANIES

**IMPORTANT MATERIAL
NEEDS PROMPT ATTENTION**

Re: Refund of Portion of Escrowed Premiums - 2008 Private Passenger
Automobile Rate Filing

By Circular Letter to All Member Companies A-09-6 dated July 16, 2009, the North Carolina Rate Bureau announced that the Rate Bureau and the Commissioner of Insurance had agreed to settle the outstanding 2008 private passenger automobile insurance rate filing case and that the terms of the 2008 Auto Settlement Agreement and Consent Order provide that member companies shall refund to policyholders that portion of the premium collected on each policy which exceeds the premium which would have resulted on each policy using the rates approved in the 2008 Auto Settlement Agreement and Consent Order, with interest.

The 2008 case was involved in litigation and member companies had been advised by the Rate Bureau to establish escrow accounts in connection with their voluntary business because the Rate Bureau instructed member companies to implement rates higher than those approved by the Commissioner of Insurance.

The above mentioned circular further stated that “with respect to “clean risk” business ceded to the North Carolina Reinsurance Facility during the period for which the Rate Bureau’s 2008 rate filing case applied, the Reinsurance Facility established rates equal to the Rate Bureau manual rates. For that business, the Reinsurance Facility has been maintaining the required premium escrow account.”

The 2008 rate filing case governed the rates applicable to all policies that became effective during the period January 1, 2009 through October 31, 2009. Procedures for refunding of premium were included in the Rate Bureau’s circular A-09-6 dated July 16, 2009 and stated that “no refunds shall be delivered or mailed to policyholders prior to May 1, 2010. For companies writing only six month policies, refunds shall be made during the period beginning May 1, 2010 and ending July 31, 2010. For companies writing both six month policies and twelve month policies, refunds on policies expiring prior to May 1, 2010 may be made during the period beginning May 1, 2010 and ending July 31, 2010. Refunds on all policies not refunded during the period beginning May 1, 2010 and ending July 31, 2010 shall be made during the period beginning November 1, 2010 and ending January 31, 2011. All refunds hereunder shall be delivered or mailed to policyholders on or before January 31, 2011.”

It will be necessary for ceding carriers to make arrangements to distribute appropriate refunds to “clean risk” policyholders. However, as noted above, the Reinsurance Facility has maintained the required escrow account for the “clean risk” business ceded to the Reinsurance Facility, and the difference between the premium ceded to the Facility and the premium that would have been charged using the approved rates on “clean risk” business ceded to the Reinsurance Facility in connection with this rate filing case

will be reimbursed by the Reinsurance Facility to the ceding companies. In addition, the Reinsurance Facility will reimburse to the ceding companies interest paid by the ceding companies on premium refunded on such business. Please note there are no refunds applicable to “other than clean risk” business ceded to the Reinsurance Facility for this case.

Premium and Interest Refund Reimbursement for Ceded Business

Also enclosed is a memorandum entitled Instructions for Reporting Refund Premium and Interest which provides ceding companies with the detail required for reporting to the Reinsurance Facility all transactions associated with this refund. Transactions may be reported effective with May, 2010 accounting month submissions due at the Facility by June 25, 2010. Please do not submit transactions earlier than your May 2010 accounting month submission.

The Reinsurance Facility will be refunding “gross” premiums to member carriers - under the reporting procedures adopted by the Board of Governors, premiums will not be adjusted to reflect refunds of ceding and claims expense allowances.

There will be no retrospective or prospective adjustments in expense allowances to recognize the reduction in premiums written caused by the refunds of escrowed premiums.

Settlement of May, June, July, November, December 2010 and January 2011 Accounting Reports

Due to the unusual accounting transactions as a result of escrowed premium refunds in connection with these refunds, the Board of Governors has directed Reinsurance Facility Staff to implement procedures to accelerate monthly settlements to member companies.

For the months of May, June, July, November and December 2010 and January 2011, regular monthly accounting reports received in advance of the normal due date will be processed when received by the Facility. All net settlements due companies will be processed and paid by the Facility as quickly as possible during these months. Therefore, if a company expedites its monthly reporting, it may be possible to accelerate receipt of monthly settlements from the Facility. The expedited processing of settlements does not change the fact that all normal monthly activity must continue to be included in monthly reports. Any expedited settlements will be subject to appropriate adjustments at the close of the normal processing period.

Please see to it that this circular letter is brought to the attention of all interested personnel in your Company. Any questions regarding these refunds should be directed to the following Facility Staff:

Patricia Stallings	Member Company Support Specialist	919-582-1010	pas@ncrb.org
Valerie Pearson	Training & Systems Support Analyst	919-582-1008	vap@ncrb.org
Jannet Barnes	Compliance Manager	919-582-1022	jbb@ncrb.org

Sincerely,

Edith T. Davis

Director, Reinsurance Facility

ETD:lad

RF-09-13

INSTRUCTIONS FOR REPORTING REFUND PREMIUM AND INTEREST

When premiums implemented over the Commissioner's disapproval on policies ceded to the Facility are required to be refunded to policyholders, the Board of Governors will advise member companies of the amounts to be refunded, the interest to be paid on such refunds and the procedures to be employed for such refunds. Member companies may begin processing and reporting refunds upon directions to be issued by the Board of Governors by circular letter to the member companies.

The 2008 Auto Rate Case Settlement Agreement referenced in the Circular Letter to All Member Companies RF-09-13 dated November 5, 2009, does not provide for refunding any Recoupment surcharges or installment payment charges.

Beginning with reports submitted to the Facility for the accounting month of May, 2010, the following procedures will apply for reporting premium refunds and interest payments:

PREMIUMS REFUNDED

1. Premiums refunded must be reported by:
 - a. Detail transactions in the Monthly Accounting File as accounting transaction detail records, and
 - b. One accounting transaction summary record in the Monthly Accounting File - this amount must balance to the total of the detail transactions.

These transactions must be reported utilizing account code 010.

2. The premiums refunded transactions must be reported as credit amounts. Include only the difference between the premium ceded to the Facility and the premium that would have been charged using the approved rates on "clean risk" business. Do not include interest.
3. The detail transactions for a given policy and term may be reported individually or may be combined into a single detail transaction.
4. Each detail premiums refunded transaction:
 - a. must be coded with the current accounting year and month.
 - b. must be coded as an Endorsement (Transaction Code 2).

- c. must be coded with a transaction year and month which is within the policy term (i.e. policy effective year/month through policy expiration year/month) of the original premium transactions submitted to the Facility. If the policy was cancelled prior to expiration, the transaction year and month of the premiums refunded transaction must not be later than the cancellation year/month. Do not use the date the refund check was issued.
- d. unless otherwise specified above, must match identically the coding of all corresponding fields in the original premiums written transactions submitted to the Facility.

If the detail fails to match the original premium transactions it will be rejected and appear on your Company's Questionable Transactions (FQ-1) Report.

5. The total premiums refunded will be identified separately on the Monthly Account Activity Report and included in the Net Settlement Amount. These premiums will be excluded from calculation of the ceding and claims expense allowances.

INTEREST PAID ON PREMIUMS REFUNDED

1. Interest paid must be reported in the Monthly Accounting File as an Accounting Transaction Summary Record only. This transaction should reflect the total of all interest payments for the accounting month and must be reported as a positive amount.

This transaction must be reported utilizing account code 014.

2. Interest payments are to be reported as an Accounting Transaction Summary Record only.

Please do not report detail transactions for interest payments.

3. Interest paid will be identified separately on the Monthly Account Activity and included in the Net Settlement Amount.

Please refer to the attached specifications for reporting all Summary and Detail transactions.

Accounting File Layout for FTP Transmission

Accounting Transaction Summary Record

<u>FIELD</u>	<u># CHAR</u>	<u>POSITION</u>	<u>COMMENTS</u>
ID	1	1	Insert S
ACCOUNT CODE	3	2-4	Insert a three position account code for the following accounts ONLY: 010 - Premiums Refunded for Disapproved Rates 011 - Premiums Written 014 - Interest Paid on Premiums Refunded 016 - Paid Losses 023 - Outside Legal Expenses 033 - Outstanding Losses DO NOT REPORT ANY ACCOUNTS OTHER THAN THOSE SPECIFIED ABOVE.
STATE CODE	2	5-6	Insert 32
COMPANY CODE	5	9-13	Insert a five position numerical reporting code. For those companies presently utilizing four digit codes, insert 0 in position 9.
ACCT. YEAR	2	15-16	Insert the last two positions of the accounting year.
ACCT. MONTH	2	17-18	Insert a two position accounting month.
DESIGNATED CODE	1	46	ACCOUNTS 010, 011 & 016 ONLY Insert a one position numerical designated code as follows: 1 - O/T Designated Business 2 - Designated Business ACCOUNT 023 ONLY Insert 2 FOR ALL OTHER ACCOUNTS LEAVE THIS FIELD BLANK
AMOUNT	13	51-63	Insert signed numerics in dollars and cents format. Zero fill high order positions.

Accounting File Layout for FTP Transmission

Accounting Transaction Detail Record

<u>FIELD</u>	<u># CHAR</u>	<u>POSITION</u>	<u>COMMENTS</u>
ID	1	1	Insert D
ACCOUNT CODE	3	2-4	Insert a three-position account code for the following accounts ONLY : 010 - Premiums Refunded For Disapproved Rates 011 - Premiums Written 016 - Losses Paid 033 - Loss Reserves DO NOT REPORT ANY ACCOUNTS OTHER THAN THOSE SPECIFIED ABOVE.
STATE CODE	2	5-6	32 - North Carolina RF
COMPANY CODE	5	9-13	Insert a five position numerical reporting code. For those companies presently utilizing four digit codes, insert 0 in position 9.
ACCOUNTING YEAR	2	15-16	Insert the last two positions of the accounting year.
ACCOUNTING MONTH	2	17-18	Insert a two-position accounting month. ACCOUNT 033 (LOSS RESERVE) REPORTED ONLY ON: 03 - March 06 - June 09 - September 12 - December
EFFECTIVE YEAR	2	19-20	Insert the last two positions of the year of the effective year.
EFFECTIVE MONTH	2	21-22	Insert a two-position effective month.
EXPIRATION YEAR	2	23-24	ACCOUNTS 010 & 011 ONLY Insert the last two positions of the expiration year.
EXPIRATION MONTH	2	25-26	ACCOUNTS 010 & 011 ONLY Insert a two-position expiration month.
TRANSACTION YEAR	2	27-28	ACCOUNTS 010 & 011 ONLY Insert the last two positions of the transaction year.

Accounting File Layout for FTP Transmission

Accounting Transaction Detail Record - Continued

<u>FIELD</u>	<u># CHAR</u>	<u>POSITION</u>	<u>COMMENTS</u>
TRANSACTION MONTH	2	29–30	ACCOUNTS 010 & 011 ONLY Insert a two-position transaction month.
ACCIDENT YEAR	2	31–32	ACCOUNTS 016 & 033 ONLY Insert the last two positions of the accident year.
ACCIDENT MONTH	2	33–34	ACCOUNTS 016 & 033 ONLY Insert a two-position accident month.
ACCIDENT DAY	2	35–36	ACCOUNTS 016 & 033 ONLY Insert a two-position accident day.
DESIGNATED CODE	1	46	ACCOUNTS 010, 011 & 016 ONLY Insert a one position numerical Designated code as follows: 1–O/T Designated Business 2–Designated Business
CLASS CODE	1	47	Insert a one position numerical class code as follows: 1–Private Passenger 3–Other Than Private Passenger
COVERAGE CODE	1	48	Insert a one position numerical coverage code as follows: ACCOUNTS 010 & 011 ONLY 1– Bodily Injury (includes Med, UM & UIM) 3– Property Damage ACCOUNTS 016 & 033 ONLY 1– BI 2– Medical Payments 3– Property Damage 4– Out of State No-Fault 5– UM BI 6– UM PD 7– UIM
PAYMENT	1	50	Insert a one position numerical payment code as follows: ACCOUNT 016 ONLY 3–Paid Loss Partial 4–Paid Loss Final 5–Salvage 6–Subrogation 7–Payment after Closing

Accounting File Layout for FTP Transmission

Accounting Transaction Detail Record – Continued

<u>FIELD</u>	<u># CHAR</u>	<u>POSITION</u>	<u>COMMENTS</u>
AMOUNT	13	51–63	Insert signed numerics in dollars and cents format. Zero fill high order positions.
TRANSACTION CODE	1	81	ACCOUNTS 010 & 011 ONLY Insert a one-position numerical transaction code as follows: 1–Policy new and renewal 2–Endorsements 3–Cancellations 4–Reinstatements 5–All Other
POLICY NUMBER	16	83–98	Insert a 16-position policy number. Left justified.
CLAIM NUMBER	16	101–116	Insert a 16-position claim number. Left justified.

RECORD LAYOUT

NORTH CAROLINA REINSURANCE FACILITY

REPORTING OF DETAIL TRANSACTIONS FOR PREMIUMS AND LOSSES

Detail Record

ID	ACCTG CODE	S T A T E	COMPANY CODE	ACCTG		EFF		EXP		TRANS		ACCIDENT			D E S C R I P T I O N
				YY	MM	YY	MM	YY	MM	YY	MM	YY	MM	DD	
		5	10	15		20		25		30		35		40	45

C O V E R A G E	P A Y M E N T	AMOUNT				T R A N S A C T I O N C O D E	
		DOLLARS		C E N T S			
	50	55	60	65	70	75	80

P O L I C Y N U M B E R										C L A I M N U M B E R									
85	90	95	100	105	110	115	120												

**NORTH CAROLINA REINSURANCE FACILITY
MONTHLY ACCOUNT ACTIVITY**

COMPANY _____ CODE _____ ACCT. MONTH ENDING _____

A. WRITING CARRIER EXPERIENCE (CEDED BUSINESS)

1. Premiums Written	\$XXX,XXX.XX
2. Premiums Refunded for Disapproved Rates	\$XXX,XXX.XX
3. Recoupment.....	\$XXX,XXX.XX
4. Ceding Expenses Allowance	\$XXX,XXX.XX
5. Losses Paid	\$XXX,XXX.XX
6. Claim Expense Allowance	\$XXX,XXX.XX
7. Net Balance Due _____ * _____ (1 + 2 + 3) – (4 + 5 + 6)	\$XXX,XXX.XX

B. LOSSES NOT REIMBURSED

1. To company as of this period.....	\$XXX,XXX.XX
2. To company as of last period.....	\$XXX,XXX.XX
3. Net Balance Due _____ * _____ (1) – (2)	\$XXX,XXX.XX

C. OFFSET INVALID TRANSACTIONS FROM CLOSED POLICY YEAR \$XXX,XXX.XX

D. INTEREST PAID ON PREMIUMS REFUNDED \$XXX,XXX.XX

E. ANNUAL MEMBERSHIP FEES \$XXX,XXX.XX

F. NET SETTLEMENT AMOUNT:

Net Balance Due _____ * _____ (A7 + B3-C-D + E)

* NOTE: Insert "Facility" if net balance is a positive amount due Facility.
Insert "Company" if net balance is a negative amount due Facility.