

**IMPORTANT MATERIAL
TO BE IMPLEMENTED**

March 22, 2019

CIRCULAR LETTER TO ALL MEMBER COMPANIES

RE: COMMERCIAL AUTO LOSS RECOUPMENT

During our recent audit of member companies' implementation of the commercial auto loss recoupment surcharge, Reinsurance Facility staff identified several items of concern. For your reference, please review the prior circular letters [RF-17-12](#), [RF-17-13](#), [RF-17-16](#), [RF-18-2](#), and [RF-18-6](#) paying particular attention to the following:

1. It has been noted that some member companies are reporting a commercial auto loss recoupment amount to the Facility that includes the amount for agent compensation. The commercial auto loss recoupment that should be reported to the Facility on policies becoming effective October 1, 2018 through September 30, 2019 is the **7.07%** surcharge (before agent compensation). The difference between the surcharge before agent compensation and the surcharge adjusted to include agent compensation serves to reimburse the member company for the agent compensation required to be paid on the loss recoupment surcharge amount.
2. Commercial auto loss recoupment applies to liability (bodily injury and property damage), medical payments, uninsured motorist and underinsured motorist premiums for all vehicles insured on all commercial auto policies, including any and all endorsements (including but not limited to hired and non-owned or drive-other-car coverages). As a general statement, this means that commercial auto loss recoupment should be reported on all commercial auto policies for which the premiums are reported as North Carolina premium in the Annual Statement on statutory page 14, lines 19.3 and 19.4. However, this is not a definitive rule. For example, private passenger automobile premiums may be subject to commercial auto loss recoupment, as noted below.

Exceptions to this are:

- (A) Vehicles listed as exceptions in N.C.G.S. 58-37-1(6), and
 - (B) Companies classified by the North Carolina Insurance Commissioner as an "Authorized Surplus Lines Writer" or a "Risk Retention Group".
3. As noted in previous circulars, it is policy type and not vehicle type that determines what recoupment applies to the policy. For example, the premiums for Private Passenger non-fleet motor vehicles that are written on a commercial policy should be included in the commercial recoupment calculation.

Important reminder: Commercial auto loss recoupment will very likely continue beyond the expiration of the current recoupment surcharge, which applies to all commercial auto policies becoming effective October 1, 2018 through September 30, 2019. Please see circular [RF-18-6](#) (dated June 7, 2018) which announced the decision of the North Carolina Reinsurance Facility Board of Governors to spread the commercial auto loss recoupment over multiple years. The Board of Governors will be reviewing the data to determine the appropriate loss recoupment surcharge percentage for policies becoming effective on or after October 1, 2019. A circular letter is anticipated to be distributed to all member companies in June.

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 to the NCRF.

Questions regarding this circular should be directed to Thomas Burns at 919-719-3033 or e-mail at: tfb@ncrb.org.

Sincerely,

Thomas Burns

Director Auto Operations

North Carolina Reinsurance Facility

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