Experience Modification Questions

1. ***The insured is <u>not</u> 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 <u>just started up business this year</u> 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?")*

3. ***The insured is eligible for an experience rating modification <u>however</u>, 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 Donna Guin, Commercial Auditor (dsg@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.

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.**

………………………………………………………………………………………………

Instructions for determining pre-fill experience data to be used

Experience Rating Worksheet
Autonomous Calculating

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 one completed policy year…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. This is not common practice except in rare cases. At no time should there be a lapse in which no policy was in effect for the insured. 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 Donna Guin at dsg@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.

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 experience rating modification 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 modification 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 2015/2016.
     BI .054
     PD .007

(36 months) Use these factors for the policy term 2014/2015.
     BI .024
     PD .001

(48 months) Use these factors for the earliest policy term 2013/2014.
     BI .007
     PD .000

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)

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

```
1st Claim   BI $0.          PD $ 250.    (250)
2nd Claim   BI $10,150.*    PD $6,300.*  (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.

....

North Carolina Reinsurance Facility
Automobile Liability Experience Rating Plan
Rating Form

Name of Risk:	FAQ Example Company
Address of Principal Office:	1234 Main Street, Town, State, Zip
Effective Date of Experience Modification:	03/01/17-18
Submitting Company:	Your Company
Date:	2/28/2017 ← Date of loss history evaluation

Experience Rating Modification Computation

Policy Term			Basic Limits Unmodified Premiums (2)	TIMES	Adjusted Expected Loss Ratio (3)	TIMES	Loss Development Factor (4)	EQUALS	Adjustments to basic Limits Loss (5)	PLUS	Basic Limits Incurred Losses (6)	EQUALS	Adjusted Incurred Losses (7)
From	3/1/2013	BI	5274	X	0.473	X	0.007	=	17	+	4000	=	4,017
To	2014	PD	1318	X	0.473	X	0.000	=	0	+	6000	=	6,000
From	3/1/2014	BI	6873	X	0.473	X	0.024	=	78	+	10150	=	10,228
To	2015	PD	1718	X	0.473	X	0.001	=	1	+	6550	=	6,551
From	3/1/2015	BI	8474	X	0.473	X	0.054	=	216	+	0	=	216
To	2016	PD	2118	X	0.473	X	0.007	=	7	+	0	=	7
From		BI		X		X		=	0	+		=	0
To		PD		X		X		=	0	+		=	0
From		BI		X		X		=	0	+		=	0
To		PD		X		X		=	0	+		=	0
From		BI		X		X		=	0	+		=	0
To		PD		X		X		=	0	+		=	0
From		BI		X		X		=	0	+		=	0
To		PD		X		X		=	0	+		=	0
From		BI		X		X		=	0	+		=	0
To		PD		X		X		=	0	+		=	0
From		BI		X		X		=	0	+		=	0
To		PD		X		X		=	0	+		=	0
TOTAL Premiums			**25775**								**TOTAL LOSSES**		**27,019**

(8) TOTAL LOSS   27019

÷

TOTAL PREMIUMS   25775   = | 1.048 | **ACTUAL LOSS RATIO**

(9) Where (3) is more than (8) = (3) **SEE BELOW** − (8) 1.048 x **0.21** = **#VALUE!**

     CREDIBILITY   UNADJUSTED CREDIT

(3)   0.473

1.00 − **#VALUE!** = | #VALUE! | **FINAL MODIFICATION**

   UNADJUSTED CREDIT

(10) Where (8) is more than (3) = (8) 1.048 − 0.473 x **0.21** = 0.255

     CREDIBILITY   UNADJUSTED CREDIT

(3)   0.473

1.00 + 0.255 = | 1.26 | **FINAL MODIFICATION**

Basic Limits Unmodified Premiums shall be the collected premium for the experience period converted to a basic limits basis and adjusted to eliminate the effect of any experience or other rate modification applied.

Basic Limits Incurred Losses are basic limits paid and outstanding losses (including allocated claim expenses) limited to the maxium single loss value. A summary of incurred losses is required to be reported on the reverse side of this form.

FORM NCRF-24 (11-89)

EXPERIENCE RATING PLAN

TABLE B

AUTOMOBILE LIABILITY EXPERIENCE RATING
CREDIBILITY AND MAXIMUM SINGLE LOSS TABLE

Class of current risk

Example Total: 25,775

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	.621	.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