

December 1, 2009

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

Item B-1416 – Revisions to the *Basic Manual for Workers Compensation and Employers Liability Insurance*

The North Carolina Bureau has adopted and the North Carolina Commissioner of Insurance has approved the adoption of changes to *NCCI's Basic Manual for Workers Compensation and Employers Liability Insurance*. The approval is effective January 1, 2010, and will impact new or renewal voluntary business written on or after that date. Please note that this change does not apply to assigned risk policies.

The purpose of the filing is to modify the Cancellation Rule to allow pro-rata cancellations when the policy is cancelled by the insured if endorsement WC 32 06 02 is attached. The attached exhibits explain the change in more detail. Additionally, a copy of the new endorsement WC 32 06 02 is included.

The filing was made with the Department of Insurance on behalf of all member companies, and no additional filing is needed by the carrier.

Contact the Information Center at 919-582-1056 or via email at wcinfo@ncrb.org, if you require additional information.

Sincerely,

Sue Taylor

Director of Insurance Operations

ST:dg

C-09-30

FILING MEMORANDUM

ITEM B-1416—REVISIONS TO BASIC MANUAL RULE 3-A-3-b—CANCELLATION PROVISIONS TABLE 4

PURPOSE

This item revises NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance* Rule 3-A-3-b—Cancellation Provisions Table 4.

BACKGROUND

NCCI has an ongoing process dedicated to the systematic research, analysis, and maintenance of NCCI's manuals. This process ensures that NCCI products continue to add value to the various industry stakeholders. During the process, NCCI gathers feedback and comments from internal and external stakeholders. Based on this feedback, it has been determined that there may be situations where it would be appropriate to calculate the premium for a policy cancelled by the insured, except when retiring from the business, on a pro rata basis instead of the current short-rate basis. This change would provide carriers with the flexibility to determine the cancellation method for a policy.

PROPOSAL

This item proposes to revise *Basic Manual* Rule 3-A-3-b—Cancellation Provisions Table 4 to allow carriers the option to cancel a policy other than short-rate if they file and receive approval for a different method with the appropriate regulatory authority.

IMPACT

This item may have a premium impact for policies that are cancelled on a pro rata basis as opposed to the current short-rate basis.

IMPLEMENTATION

In order to implement this item, the attached exhibits detail the changes required in NCCI's *Basic Manual*:

- **Exhibit 1** contains the national rule. **Filing Note:** The underlined language under exhibit 1 is the proposed new content for this item and that language applies in all states listed in the "Proposed change applies in" heading of the exhibit. This item does not change any current state exception(s) that may exist for any other steps of the cancellation table and as a result are not included in this item.

Additionally, item B-1414 has not yet been approved in the states of CO, GA, IL, IN, NC, NV, OR, SD, and VT. If approved, the highlighted language indicated under Exhibit 1 will appear in this rule.

- **Exhibit 2** contains the state-specific rules, if applicable.

In all states, except Hawaii, this item will be implemented effective 12:01 a.m. on January 1, 2010, applicable to new and renewal voluntary policies only.

In Hawaii, the effective date is determined upon regulatory approval of the individual carrier's election to adopt this change.

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ITEM B-1416—REVISIONS TO BASIC MANUAL RULE 3-A-3-B—CANCELLATION PROVISIONS
TABLE 4

EXHIBIT 2
BASIC MANUAL—2001 EDITION
RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS
A. EXPLANATION AND APPLICATION
3. Cancellation Provisions
(Applies in: NC)

b. Reasons for Cancellation and Premium Determination

The way in which the premium is calculated for cancelled policies depends on the reason for cancellation:

Cancellation Provisions Table 4

<u>If . . .</u>	<u>Then . . .</u>
<p>The policy is cancelled by the insured, except when retiring from the business . . .</p>	<p>Unless a policy is endorsed with WC 32 06 02 and meets the criteria listed in the Schedule of that endorsement, the premium for the cancelled policy must be calculated by using either the short-rate percentage or short-rate factor as follows, based on the Short Rate Cancellation Table located in Appendix B:</p> <p>Steps based on short-rate percentage:</p> <ol style="list-style-type: none"> 1. Determine the payroll developed during the period the policy was in effect. 2. Determine the full policy payroll by using the following formula: $\frac{\text{number of days for which the policy was written}}{\text{number of days the policy was in effect}} \times \frac{\text{actual payroll}}{\text{actual payroll}}$ 3. Apply authorized rates to such payroll. 4. Calculate the extended number of days by using the following formula. If the policy was written for a one-year period, the extended number of days is the number of days the policy was in effect: $\frac{\text{number of days the policy was in effect}}{\text{number of days for which the policy was written}} \times 365$ 5. Based on the extended number of days, apply the short-rate percentage shown in the Short Rate Cancellation Table located in the Appendix to the full policy premium calculated in step 3. This result is the short-rate portion of the premium. 6. If applicable: <ul style="list-style-type: none"> • Apply any pricing programs • Apply any experience rating modification • Apply any premium discount based on the final earned total standard premium • Add the short-rate portion of the expense constant but not less than \$15 • Apply catastrophe provisions (if applicable) based on the earned manual premium. 7. The total earned premium for the short-rate cancelled policy must not be less than the annual minimum premium applicable to the policy.

ITEM B-1416—REVISIONS TO BASIC MANUAL RULE 3-A-3-B—CANCELLATION PROVISIONS
TABLE 4

EXHIBIT 2 (CONT'D)
BASIC MANUAL—2001 EDITION
RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS
A. EXPLANATION AND APPLICATION
3. Cancellation Provisions
(Applies in: NC)
Cancellation Provisions Table 4 (Cont'd)

If . . .	Then . . .
	<p><u>Steps based on short-rate factor:</u></p> <ol style="list-style-type: none"> 1. <u>Determine the payroll developed during the period that the policy was in effect.</u> 2. <u>Apply authorized rates to such payroll.</u> 3. <u>Based on the number of days that the policy was in effect, determine the applicable short-rate factor shown in the Short Rate Cancellation Table located in Appendix B.</u> 4. <u>Apply the short-rate factor to the premium calculated on the basis of the earned premium for the period that the policy was in effect in step 2. This result is the short-rate manual premium.</u> 5. <u>If applicable:</u> <ul style="list-style-type: none"> • <u>Apply any pricing programs</u> • <u>Apply any experience rating modification</u> • <u>Apply any premium discount based on the final earned total standard premium</u> • <u>Add the short-rate portion of the expense constant but not less than \$15</u> • <u>Apply catastrophe provisions (if applicable) based on the earned manual premium</u> 6. <u>The total earned premium for the short-rate cancelled policy must not be less than the annual minimum premium applicable to the policy.</u> <p><u>If the policy is endorsed with the Pro-Rata Cancellation Endorsement (WC 32 06 02) and the policy meets the criteria listed in the Schedule of that endorsement, the policy will be cancelled pro rata according to the following procedures:</u></p> <ol style="list-style-type: none"> 1. <u>Apply authorized rates to the payroll developed during the period the policy was in effect.</u> 2. <u>Apply an experience modification in accordance with rules of <i>Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance</i>.</u> 3. <u>Add the pro rata portion of the expense constant, but not less than \$15.</u> 4. <u>The total premium for the cancelled policy must not be less than the pro rata portion of the minimum premium.</u>

Refer to the **User's Guide** for examples.

PRO-RATA CANCELLATION ENDORSEMENT

This endorsement applies only to the insurance provided by the policy because North Carolina is shown in item 3.A. of the Information Page.

If the policy is cancelled by the insured for a reason stated in the schedule below, the final premium for the policy shall be calculated pro-rata based on the time this policy was in-force. In no circumstances shall final premium be less than minimum premium.

SCHEDULE

Notwithstanding the provisions above, in no event will the number of days notice for cancellation or for non-renewal be fewer than the number of days required by North Carolina law.

To the extent that any terms of this endorsement conflict with any other terms or conditions of the policy, the provisions of this endorsement will prevail.

All other terms, conditions, and exclusions of the policy remain the same.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)

Endorsement Insured	Effective Policy No.	Endorsement No. Premium
Insurance Company	Countersigned by _____	