

February 28, 2018

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Standard Practice Manual Revisions

At a meeting held February 21, 2018 the Board of Governors approved the following revisions to the North Carolina Reinsurance Facility Standard Practice Manual (material to be inserted is underlined and material to be deleted is struck through).

* **Please note: The first two revisions impact Commercial Auto Loss Recoupment.**

* Section 4. Chapter 13, Item 2 (b) Page 13-2 revised wording (Attachment 1).

* Section 4. Chapter 13, Item 6 (b) Page 13-3 revised wording (Attachment 2).

Section 4. Chapter 10, Facility Office Procedure A (1) Pages 10-1 thru 10-2 (Attachment 3).

Section 4. Accounting and Statistical Requirements - Exhibit V-1 and V-4 NCRF Recoupments and Allocations effective April 1, 2018 to include line code CL04. (Attachment 4)

Any questions regarding this should be directed to Bill Benton at (919) 645-3187 or email web@ncrb.org.

Sincerely,

Terry F. Collins

Chief Operating Officer

North Carolina Reinsurance Facility

TFC: lad

Attachments

RF-18-3

Section 4. Accounting and Statistical Requirements

NCRF Loss Recoupment/Allocation is recovery of the Facility operating losses sustained after September 30, 1977, and resulting from reasons other than the clean risk subsidy.

As to policies effective prior to October 1, 1981, these amounts are recouped by surcharging risks reinsured in the Facility or by surcharging all North Carolina motor vehicle liability insurance policies.

As to policies effective on or after October 1, 1981, assessments to cover "all other" operating losses are recouped by surcharging premiums for "all other" type risks as from time to time directed by the Board of Governors.

As to policies effective during the period October 1, 1981 through June 30, 1988, assessments to cover "non-fleet private passenger" operating losses are recouped by application of a surcharge to premiums in the same manner as for the clean risk recoupment.

As to policies written to become effective during the period July 1, 1988 through June 30, 1995, a portion of the "non-fleet private passenger" operating loss is recovered by recoupment surcharges applied according to G.S. 58-37-40(f) to premiums for all vehicles which are insured under any policy covering any vehicle to which one or more points are assigned in the rating thereof under the North Carolina Safe Driver Insurance Plan, and the remainder of the "non-fleet private passenger" operating loss is recovered by allocation surcharges applied according to G.S. 58-37-75 to all "non-fleet private passenger" policies. Provided, however, that on and after the effective date of the revised subclassification plan to be filed by the North Carolina Rate Bureau with the Commissioner of Insurance pursuant to G.S. 58-36-65, assessments to recover losses sustained by the Facility on "non-fleet private passenger" motor vehicle insurance shall be recouped by surcharging policies as and to the extent provided in said revised subclassification plan.

As to policies written to become effective on or after July 1, 1995, the "non-fleet private passenger" loss is recovered entirely by recoupment surcharges applied to all "non-fleet private passenger" policies.

Exhibit V is a list of the NCRF recoupments/allocations. The following are the guidelines applicable to the billing, collection, and recording of recoupment 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. By statute, 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.
 - a. For non-fleet private passenger auto:
 - Under a single-vehicle policy the total amount of the applicable recoupment surcharges is to be divided equally and combined with the bodily injury and property damage liability premiums only.
 - Under a multi-vehicle policy the total amount of the applicable recoupment surcharges is to be divided equally among all vehicles and the amount assigned to each vehicle is to be divided equally and combined with the bodily injury and property damage liability premiums only for each vehicle.
 - b. For other than non-fleet private passenger auto (commercial auto):
 - a member company may choose to apply the surcharge at a vehicle level ~~(as above)~~ or at the policy level. ~~The company must be consistent in its application of this decision.~~
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

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- payments, uninsured motorists, and underinsured motorists coverage premiums.
5. Recoupment surcharges for:
 - Non-fleet private passenger auto are to be applied to all vehicles insured on non-fleet private passenger auto policies.
 - Other than non-fleet private passenger auto (commercial auto) are to be applied to all vehicles insured on commercial auto policies regardless of vehicle type.
 6. With respect to the charging and billing of the surcharge amount:
 - a. For non-fleet private passenger auto must be the exact surcharge amount charged and billed in dollars and cents. Rounding is not permitted.
 - b. For other than non-fleet private passenger auto (commercial auto), the exact surcharge amount may be charged and billed in dollars and cents **OR** the surcharge amount may be rounded to the nearest dollar. **A member company that chooses to round to the nearest dollar must be consistent in its application of this decision.** The Facility recognizes that, if rounding to the nearest dollar is utilized, the whole dollar surcharge amount may be a slightly different percentage of the liability premium than the specific surcharge percentage.
 7. 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.
 8. Policies may be canceled for non-payment of surcharge.
 9. 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.
 10. On non-fleet private passenger car business to which any deviation from Personal Auto Manual 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 the manual rates. This is only applicable to non-fleet private passenger auto recoupment.
 11. The applicable general statutes require the Board of Governors to adopt and implement a plan for compensation of agents when recoupment surcharges are imposed. The guidelines for such compensation as adopted and implemented by the Board of Governors are as follows:
 - a. Compensation shall be paid by members of the North Carolina Reinsurance Facility to agents for the services performed by such agents in relation to the collection of recoupment surcharges applicable to policies subject to such recoupment surcharges.
 - b. The compensation amount required to be paid to agents by each member of the North Carolina Reinsurance Facility shall be equal to an amount determined by multiplying (i) the percentage rate of agent compensation by (ii) the amount of the recoupment surcharge including the agent compensation.
 - c. The percentage rate of agent compensation that is to be included in the recoupment surcharge and applied to policies as described above is
 - 10% for non-fleet private passenger auto
 - 10% for other than non-fleet private passenger auto (commercial auto)
 The recoupment surcharge amount added to each policy premium subject thereto shall include the amount necessary for the member company to recover the compensation required to be paid to the agent (as described above) in addition to the amount determined by applying to such premium the percentage determined by the Board of Governors.

For example, if the determined recoupment surcharge is 11.7%:

Recoupment surcharge percentage: **11.7% OR .117**

Agent commission: **10% OR .10**

Recoupment surcharge percentage, including agent commission, to be applied to liability premium: **.117 / (1-.10) = .130 OR 13.0%**

Section 4. Accounting and Statistical Requirements**SECTION 4****Chapter 10****FACILITY OFFICE PROCEDURE****A. Facility Accounting Books, Controls and Ledgers****1. Accounting Ledgers**

Facility accounting books, controls and records shall be maintained in the Facility office. Normal ledgers for consolidation of the various writing company reports shall be established along the same lines as those routinely used by an insurance carrier. Retained accounting reports submitted by the writing companies and reports prepared from such accounting reports shall serve as the support for entries into the Facility books.

All books of original entry shall be made available only to personnel authorized by the Facility Manager. All such ledgers and journals shall be kept under the direct supervision of the Facility accountant.

The Facility shall produce special-purpose financial statements, approved for use by and within the authority of the Board of Governors. The special-purpose financial statements shall agree with the members' participation reports and may vary from financial statements prepared using accounting principles generally accepted in the United States (GAAP). The significant variances between the accounting practices of the Facility and GAAP include:

- a. Claims Expense and Ceding Expense Allowances shall be recorded as expenses as and when the corresponding written premiums are reported to the Facility. No amounts are deferred and amortized over the effective period of the related insurance policies.
- b. Surcharges Written – Clean Risk Recoupment (aka Clean Risk Subsidy) shall be recorded as income as and when reported to the Facility. No amounts are deferred and amortized over the effective period of the insurance policies.

- c. Surcharges Written – Loss Recoupments (aka Loss Recoupment/Allocation) shall be recorded directly to members' equity.
- d. Fixed asset purchases shall be recorded as expenses when purchased
- e. Long term investments shall be reported at amortized cost as of the reporting date. The Facility considers all long-term bond purchases to be deemed held-to-maturity and no unrealized gains and losses shall be reported in the special-purpose financial statements.
- f. Adjustments or correcting entries to member companies reported written premiums, losses paid or recoupments shall be recorded as reported to the Facility.

2. Chart of Accounts

The Facility office will maintain accounts as follows:

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Financial Statement Line Number		Account Number and Name
	Income:	
IS-10	3001	Assessments
IS-9	3002	Membership Fees
IS-12	3004	Miscellaneous
IS-11	3005	Interest
IS-1	3006	Premiums Written
IS-13	3007	Late Premium Charges
IS-12	3008	Cession Key Entry Charges
IS-13	3009	Penalties for Uncorrected Questionable Transactions
IS-11	3010	Realized Gains and Losses on Investments
IS-13	3011	Late Payment Fees
IS-13	3012	Penalties for Late Surcharge Detail Report
IS-13	3013	Penalties for Late Experience Rating Data
IS-5	3100	Surcharges Written - Clean Risk Recoupment
IS-18	3101-3120	Surcharges Written - Loss Recoupments
IS-5	3200-3299	Surcharges Written - Clean Risk Recoupment
IS-18	3300-3399	Surcharges Written - Loss Recoupments
	Assets:	
BS-1	4001	
BS-1	4002	Savings Account
BS-3	4003	Investments
BS-8	4004	Assessments Receivable
BS-7	4005	Membership Fees Receivable
BS-10	4007	Travel Advance
BS-5	4008	Accounts Receivable
BS-4	4009	Accrued Interest Receivable
IS-14	4010	Salary Advance
BS-6	4011	Late Premium Charges Receivable
BS-6	4012	Allowance for Doubtful Charges
BS-2	4014	Savings Account - Insolvency
BS-6	4015	Late Payment Fees Receivable
BS-6	4016	Penalties for Uncorrected Questionable Transactions Receivable
BS-5	4017	Key Entry Charges Receivable
BS-2	4018-4024	Escrow Accounts
BS-5	4025	Interim Settlements
BS-6	4026	Penalties for Late Surcharge Detail Report Receivable
BS-6	4028	Penalties for Late Experience Rating Data Receivable
BS-9	4100	Computer Equipment
BS-9	4101	Computer Equipment Accumulated Depreciation

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t Clean Risk Recoupment	CR05	10/1/08 - 10/31/09	All PPNF	4.24%*
t Clean Risk Recoupment	CR06	11/1/09 - 9/30/10	All PPNF	6.41%*
& Clean Risk Recoupment	CR07	10/1/10 - 9/30/11	All PPNF	4.33%*
& Clean Risk Recoupment	CR08	10/1/11 - 9/30/12	All PPNF	3.87%*
& Clean Risk Recoupment	CR09	10/1/12 - 3/31/13	All PPNF	3.87%*
& Clean Risk Recoupment	CR10	4/1/13 - 9/30/13	All PPNF	2.25%*
& Clean Risk Recoupment	CR11	10/1/13 - 3/31/14	All PPNF	2.25%*
Clean Risk Recoupment	CR12	4/1/14 - 9/30/14	All PPNF	4.67%*
Clean Risk Recoupment	CR13	10/1/14 - 9/30/15	All PPNF	4.86%*
Clean Risk Recoupment	CR14	10/1/15 - 9/30/16	All PPNF	4.06%*
B Clean Risk Recoupment	CL01	10/1/16 - 3/31/17	All PPNF	4.94%*
B Clean Risk Recoupment	CL02	4/1/17 - 9/30/17	All PPNF	4.94%*
B Clean Risk Recoupment	CL03	10/1/17 - 3/31/18	All PPNF	5.25%*
<u>B Clean Risk Recoupment</u>	<u>CL04</u>	<u>4/1/18 - 9/30/18</u>	<u>All PPNF</u>	<u>5.25%*</u>

e These surcharges closed in prior years.

t These surcharges closed 7/31/16

& These surcharges closed 4/1/18

* Excluding agent compensation or commission.

B This Clean Risk and Loss Recoupment are to be reported under the same line code.

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NCRF RECOUPMENTS AND ALLOCATIONS

Type	Line Code	Applicable to Policies Effective	Which Policies?	% Surcharge
e Prior Loss-Direct		3/1/80 - 2/28/81	All Facility #	18.6%
e Prior Loss-Direct		3/1/81 - 9/30/81	All Facility #	16.4%
e Prior Loss-Assmt.		10/1/81 - 2/28/82	All Pointed SDIP	13.3%*
e Qtrly. Assessment		4/1/80 - 6/30/80	All	5.3%
e Qtrly. Assessment		7/1/80 - 9/30/80	All	5.3%
e Qtrly. Assessment		10/1/80 - 12/31/80	All	4.9%
e Qtrly. Assessment		1/1/81 - 3/31/81	All	8.3%
e Qtrly. Assessment		4/1/81 - 6/30/81	All	5.7%
e Qtrly. Assessment		7/1/81 - 9/30/81	All	0.4%
e Qtrly. Assessment		10/1/81 - 12/31/81	All Pointed SDIP	9.7%*
e Qtrly. Assessment		1/1/82 - 3/31/82	All Pointed SDIP	9.7%*
e Qtrly. Assessment**		4/1/82 - 3/31/83	All Pointed SDIP	5.5%*
e Loss Assessment		4/1/83 - 3/31/84	All Pointed SDIP	12.6%*
e Loss Assessment**		4/1/84 - 3/31/85	All Pointed SDIP	20.2%*
e Loss Assessment**		4/1/85 - 3/31/86	All Pointed SDIP	18.6%*
e Loss Assessment**		4/1/85 - 3/31/86	All Except PPNF	2.8%*
e Loss Assessment**		4/1/86 - 3/31/87	All Pointed SDIP	26.9%*
e Loss Assessment		4/1/86 - 3/31/87	All Except PPNF	5.6%*
e Loss Assessment**		4/1/87 - 3/31/88	All Pointed SDIP	31.4%*
e Loss Assessment**		4/1/87 - 3/31/88	All Except PPNF	1.8%*
e Loss Assessment**		4/1/88 - 6/30/88	All Pointed SDIP	35.6%*
e Loss Assessment**		4/1/88 - 6/30/88	All Except PPNF	1.3%*
e Loss Allocation**		7/1/88 - 6/30/89	All PPNF	1.9%*
e Loss Assessment**		7/1/88 - 6/30/89	All Pointed SDIP	25.5%*
e Loss Assessment**		7/1/88 - 6/30/89	All Except PPNF	1.5%*
e Loss Allocation**		7/1/89 - 6/30/90	All PPNF	1.8%*
e Loss Assessment**		7/1/89 - 6/30/90	As Per SDIP	9.4%*
e Loss Allocation**		7/1/90 - 6/30/91	All PPNF	0.19%*
e Loss Assessment**		7/1/90 - 6/30/91	As Per SDIP	0.67%*
t Loss Assessment**	PP01	4/1/05 - 3/31/06	All PPNF	4.17%*
B Loss Assessment**	CL01	10/1/16 - 3/31/17	All PPNF	3.32%*
B Loss Assessment**	CL02	4/1/17 - 9/30/17	All PPNF	5.00%*
B Loss Assessment**	CL03	10/1/17 - 3/31/18	All PPNF	5.06%*
<u>B Loss Assessment**</u>	<u>CL04</u>	<u>4/1/18 - 9/30/18</u>	<u>All PPNF</u>	<u>6.67%*</u>

e These surcharges closed in prior years.

Except certain policies produced by designated agents.

* Excluding agent compensation or commission.

** Includes shortfalls from prior recoupments.

f1 This Clean Risk and Loss Recoupment are to be reported under the same line code.

t This surcharge closed 7/31/16.

B This Clean Risk and Loss Recoupment are to be reported under the same line code.