



December 2, 2004

CIRCULAR LETTTER TO ALL MEMBER COMPANIES

Re: Application of Inexperienced Operator Rule

The Reinsurance Facility has received numerous reports of confusion regarding the North Carolina Rate Bureau Circular letter **A-04-4** dated March 10, 2004 regarding a revision to the private passenger automobile manual Inexperienced Operator rule and related Circular letter **A-04-10** dated August 9, 2004 for clarification on the same issue.

The Facility Standard Practice Manual Section 6 states that member companies have the following responsibility with regard to auditing:

A. Member Responsibilities

Each member is responsible to ensure that its own internal control and spot-check procedure is sufficient to detect any irregularity in handling business which is either ceded to the Facility or with respect to which recoupment surcharges are applicable. These controls include, but are not restricted to, the following items:

1. That all cessions, premiums, and claims are accurately and promptly reported to the Facility;
2. That all reports, whether on a regular basis or by special call, are filed accurately and promptly;
3. That all agents are fully complying with the Plan of Operation and the Rules of Operation;
4. That ceded policies are properly rated and ceded claims properly handled;
5. That recoupment surcharges for all policies subject to recoupment are properly determined and promptly reported to the Facility.

If any internal irregularities are noted they should be immediately corrected. Similarly if, in the course of doing business, irregularities on the part of the Facility or other members are detected, these irregularities should be immediately reported to the Audit Committee. Each member and agent is subject to audit by the Audit Committee or its designate to ensure compliance with Facility procedures.

In discussions with the Rate Bureau, the Bureau believes that there has been sufficient detail provided and that any areas of initial confusion have been resolved. If any member has questions about the rule, please refer to the circular letters referenced in the first paragraph or contact the Bureau directly.

Consistent with the above, the rule change and the obligations of members to conform, the Facility recommends that members commence a review of policies issued after July 1, 2004 to be certain that all drivers were rated appropriately. Adjustments to ceded premium not originally calculated correctly should be reported to the Facility as endorsement premium in the next

available monthly accounting report. Adjustments to clean risk and loss recoupments should be reported to the Facility in the next available monthly recoupment report.

While there continue to be reports of individual agents still not complying with the revised rule, companies are reminded that the responsibility to correctly rate these policies and report the associated transactions to the Facility is still with the issuing carrier.

Please contact Edith Davis at 919-582-1006 or etd@ncrb.org if you have any questions on this issue.

Sincerely,

Raymond F. Evans, Jr. CPCU

General Manager

ETD

RF-04-18