



July 26, 2004

CIRCULAR LETTER TO ALL MEMBER COMPANIES

**IMPORTANT MATERIAL
NEEDS PROMPT ATTENTION**

Re: Refund Escrowed Premiums - 2001 Private
Passenger Automobile Rate Filing

Refund of Portion of Escrowed Premiums - 2002
Private Passenger Automobile Rate Filing

By Circular Letter to All Member Companies A-04-7 dated July 22, 2004, the North Carolina Rate Bureau announced that "the Commissioner of Insurance, following the issuance of the Supreme Court Opinion in the 2001 Private Passenger Auto Rate Filing Case, has issued an Order dated July 22, 2004 that requires member companies to refund to policyholders that portion of the premium collected on each policy which exceeds the premium which would have resulted on each policy using the rates ordered by the Commissioner of Insurance, with interest."

The Circular also advised that the "Rate Bureau and the Commissioner of Insurance have agreed to settle the outstanding 2002 private passenger automobile insurance rate filing case...The terms of the 2002 Auto Settlement Agreement provide that member companies shall refund a portion of the escrowed premium to policyholders. Member companies shall refund to policyholders that portion of the premium collected on each policy which exceeds the premium which would have resulted on each policy using the rates approved in the 2002 Auto Settlement Agreement."

The 2001 and 2002 cases were involved in litigation and in each case member companies were advised by the Rate Bureau to establish escrow accounts in connection with their voluntary business because the Rate Bureau instructed member companies to implement rates higher than those approved by the Commissioner of Insurance.

As to "clean risk" business ceded to the North Carolina Reinsurance Facility, which is required to be rated on the basis of Rate Bureau voluntary rates, member companies were advised that the Reinsurance Facility would maintain the required escrow accounts.

2001 Filing

The 2001 rate filing case governed the rates applicable to all policies that became effective during the period April 1, 2002 through January 26, 2003.

2002 Filing

The 2001 rate filing case governed the rates applicable to all policies that became effective during the period January 27, 2003 through June 30, 2003.

With respect to policies to which these rate filing cases applied, the terms of the Order and Settlement Agreement provide that member companies are required to refund to policyholders that portion of the premium collected on each policy which exceeds the premium which would have resulted on each policy using the rates approved in the settlement agreement, along with interest. Procedures for refunding of premium were included in the Rate Bureau's circular A-04-7 dated July 22, 2004.

It will be necessary for ceding carriers to make arrangements to distribute appropriate refunds to "clean risk" policyholders. However, as noted above, the Reinsurance Facility has maintained the required escrow account for the "clean risk" business ceded to the Reinsurance Facility, and the difference between the premium ceded to the Facility and the premium that would have been charged using the approved rates on "clean risk" business ceded to the Reinsurance Facility in connection with these rate filing cases will be reimbursed by the Reinsurance Facility to the ceding companies. In addition, the Reinsurance Facility will reimburse to the ceding companies any interest paid by the ceding companies on premium refunded on such business. Please note there are no refunds applicable to "other than clean risk" business ceded to the Reinsurance Facility for either case.

Premium and Interest Refund Reimbursement for Ceded Business

Also enclosed is a memorandum entitled Instructions for Reporting Refund Premium and Interest which provides ceding companies with the detail required for reporting to the Reinsurance Facility all transactions associated with this refund. Transactions may be reported effective with September, 2004 accounting month submissions due at AIPSO by November 15, 2004. Please do not submit transactions earlier than your September 2004 accounting month submission.

The Reinsurance Facility will be refunding "gross" premiums to member carriers - under the reporting procedures adopted by the Board of Governors, premiums will not be adjusted to reflect refunds of ceding and claims expense allowances.

There will be no retrospective or prospective adjustments in expense allowances to recognize the reduction in premiums written caused by the refunds of escrowed premiums.

Settlement of September, October and November 2004 Accounting Reports

Due to the unusual accounting transactions as a result of escrowed premium refunds in connection these refunds, the Board of Governors has directed Reinsurance Facility Staff to implement procedures to accelerate monthly settlements to member companies.

For the months of September, October and November 2004 regular monthly accounting reports received in advance of the normal due date will be processed when received by AIPSO. All net settlements due companies will be processed and paid by the Facility as quickly as possible after this time. Therefore, if a company expedites its monthly reporting, it may be possible to accelerate receipt of monthly settlements from the Facility. The expedited processing of settlements does not change the fact that all normal monthly activity must continue to be included in monthly reports. Any expedited settlements will be subject to appropriate adjustments at the close of the normal processing period.

Please see to it that this circular letter is brought to the attention of all interested personnel in your Company. Any questions regarding these refunds should be directed to the following Facility Staff:

Jannet Barnes	Compliance Manager	919-582-1022	jbb@ncrb.org
Liz Polley	Data Analyst	919-645-3177	erp@ncrb.org
Valerie Pearson	Data Quality Analyst	919-582-1008	vap@ncrb.org

Please contact Tom Pistone, AIPSO at (401) 946-2310 if you have any questions concerning the reporting of detailed transactions.

Very truly yours,

Raymond F. Evans, Jr. CPCU

General Manager

Reinsurance Facility

RFE:dp

RF-04-7

INSTRUCTIONS FOR REPORTING REFUND PREMIUM AND INTEREST

When premiums implemented over the Commissioner's disapproval on policies ceded to the Facility are required to be refunded to policyholders, the Board of Governors will advise member companies of the amounts to be refunded, the interest to be paid on such refunds and the procedures to be employed for such refunds. Member companies may begin processing and reporting refunds upon directions to be issued by the Board of Governors by circular letter to the member companies.

The 2001 Order and 2002 Settlement Agreement referenced in the Circular Letter to All Member Companies RF-04-7 dated July 23, 2004, do not provide for refunding any Recoupment surcharges or installment payment charges.

Beginning with report submitted to AIPSO for the accounting month of September, 2004, the following procedures will apply for reporting premium refunds and interest payments:

PREMIUMS REFUNDED

1. Premiums refunded must be reported by:
 - a. detail transactions in the Monthly Detail Premium Report, and
 - b. one summary transaction in the Monthly Summary Report - this amount must balance to the total of the detail transactions.

These transactions must be reported utilizing account code 010.

2. The premiums refunded transactions must be reported as credit amounts. Include only the difference between the premium ceded to the Facility and the premium that would have been charged using the approved rates on "clean risk" business. Do not include interest.
3. The detail transactions for a given policy and term may be reported individually or may be combined into a single detail transaction.
4. Each detail premiums refunded transaction:
 - a. must be coded with the current accounting year and month.
 - b. must be coded as an Endorsement (Transaction Code 2).
 - c. must be coded with a transaction year and month which is within the policy term (i.e. policy effective year/month through policy expiration year/month) of the original premium transactions submitted to AIPSO. If the policy was cancelled prior to expiration, the transaction year and month of the premiums refunded transaction must not be later than the cancellation year/month.

- d. unless otherwise specified above, must match identically the coding of all corresponding fields in the original premiums written transactions submitted to AIPSO.

If the detail fails to match the original premium transactions it will be rejected and appear on your Company's FQ-1 Report.

5. The total premiums refunded will be identified separately on the Monthly Account Activity Report and included in the Net Settlement Amount. These premiums will be excluded from calculation of the ceding and claims expense allowances.

INTEREST PAID ON PREMIUMS REFUNDED

1. Interest paid must be reported in the Monthly Summary Report by a summary transaction only. This transaction should reflect the total of all interest payments for the accounting month and must be reported as a positive amount.

This transaction must be reported utilizing account code 014.

2. Interest payments are to be reported in the Monthly Summary Report only.

Please **do not report** detail transactions for interest payments.

3. Interest paid will be identified separately on the Monthly Account Activity and included in the Net Settlement Amount.

Please refer to the attached specifications for reporting all Summary and Detail transactions.

NCRF MONTHLY SUMMARY REPORT

FIELD	# CHAR	POSITION	COMMENTS
ID	1	1	Insert S
ACCOUNT CODE	3	2 - 4	<p>Insert a three position account code for the following accounts ONLY:</p> <p>010 - Premiums Refunded for Disapproved Rates</p> <p>011 - Premiums Written</p> <p>014 Interest Paid on Premiums Refunded</p> <p>016 - Paid Losses</p> <p>023 - Outside Legal Expenses</p> <p>033 - Outstanding Losses</p> <p>DO NOT REPORT ANY ACCOUNTS ACCOUNTS OTHER THAN THOSE SPECIFIED ABOVE.</p>
STATE CODE	2	5 - 6	Insert 32
COMPANY CODE	5	9 - 13	Insert a five position numerical reporting code. For those companies presently utilizing four digit codes, insert 0 in position 9.
ACCT. YEAR	2	15 - 16	Insert the last two positions of the accounting year.
ACCT. MONTH	2	17 - 18	Insert a two position accounting month.
DESIGNATED CODE	1	46	<p>ACCOUNTS 010, 011 & 016 ONLY</p> <p>Insert a one position numerical designated code as follows:</p> <p>1 - O/T Designated Business</p> <p>2 - Designated Business</p> <p>ACCOUNT 023 ONLY</p> <p>Insert 2</p> <p>FOR ALL OTHER ACCOUNTS LEAVE THIS FIELD BLANK</p>
AMOUNT	13	51 - 63	Insert signed numerics in dollars and cents format. Zero fill high order positions.

RECORD LAYOUT
NCRF MONTHLY SUMMARY REPORT

I D	ACCTG CODE	S T A T E	COMPANY CODE		ACCTG																						D E S C R I P T I O N						
			YY	MM	YY	MM																											
		5	10		15			20					25					30					35					40					45

		AMOUNT																													
		DOLLARS					CTS																								
	50					55					60					65					70					75					80

	85					90					95					100					105					110					115					120

REPORTING OF DETAIL TRANSACTIONS

FIELD	# CHAR	POSITION	COMMENTS
ID	1	1	Insert D
ACCOUNT CODE	3	2-4	Insert a three-position account code for the following accounts ONLY: 010 - Premiums Refunded for Disapproved Rates 011 - Premiums Written 016 - Losses Paid 033 - Loss Reserves DO NOT REPORT ANY ACCOUNTS OTHER THAN THOSE SPECIFIED ABOVE.
STATE CODE	2	5-6	32 - North Carolina RF
COMPANY CODE	5	9-13	Insert a five position numerical reporting code. For those companies presently utilizing four digit codes, insert 0 in position 9.
ACCOUNTING YEAR	2	15-16	Insert the last two positions of the accounting year.
ACCOUNTING MONTH	2	17-18	Insert a two-position accounting month. ACCOUNT 033 (LOSS RESERVE) REPORTED ONLY ON: 03 - March 06 - June 09 - September 12 - December
EFFECTIVE YEAR	2	19-20	Insert the last two positions of the year of the effective year.
EFFECTIVE MONTH	2	21-22	Insert a two-position effective month.
EXPIRATION YEAR	2	23-24	ACCOUNTS 010 & 011 ONLY Insert the last two positions of the expiration year.
EXPIRATION MONTH	2	25-26	ACCOUNTS 010 & 011 ONLY Insert a two-position expiration month.
TRANSACTION YEAR*	2	27-28	ACCOUNTS 010 & 011 ONLY Insert the last two positions of the transaction year.
TRANSACTION MONTH*	2	29-30	ACCOUNTS 010 & 011 ONLY Insert a two-position transaction month.
ACCIDENT YEAR	2	31-32	ACCOUNTS 016 & 033 ONLY Insert the last two positions of the accident year.
ACCIDENT MONTH	2	33-34	ACCOUNTS 016 & 033 ONLY Insert a two-position accident month.

REPORTING OF DETAIL TRANSACTIONS

ACCIDENT DAY	2	35–36	ACCOUNTS 016 & 033 ONLY Insert a two-position accident day.
DESIGNATED CODE	1	46	ACCOUNTS 010, 011 & 016 ONLY Insert a one position numerical Designated code as follows: 1–O/T Designated Business 2–Designated Business
CLASS CODE	1	47	Insert a one position numerical class code as follows: 1–Private Passenger 3–Other Than Private Passenger
COVERAGE CODE	1	48	Insert a one position numerical Coverage code as follows: ACCOUNTS 010 & 011 ONLY 1– Bodily Injury (includes Med, UM & UIM) 3– Property Damage ACCOUNTS 016 & 033 ONLY 1– BI 2– Medical Payments 3– Property Damage 4– Out of State No-Fault 5– UM BI 6– UM PD 7– UIM
PAYMENT	1	50	Insert a one position numerical payment code as follows: ACCOUNT 016 ONLY 3–Paid Loss Partial 4–Paid Loss Final 5–Salvage 6–Subrogation 7–Payment after Closing
AMOUNT	13	51–63	Insert signed numerics in dollars and cents format. Zero fill high order positions.
TRANSACTION CODE	1	81	ACCOUNTS 010 & 011 ONLY Insert a one-position numerical transaction code as follows: 1–Policy new and renewal 2–Endorsements 3–Cancellations 4–Reinstatements 5–All Other
POLICY NUMBER	16	83–98	Insert a 16-position policy number. Left justified.
CLAIM NUMBER	16	101–116	Insert a 16-position claim number. Left justified.

*See Section 4, Chapter 3 for definition

NORTH CAROLINA REINSURANCE FACILITY
 REPORTING OF DETAIL TRANSACTIONS FOR PREMIUMS AND LOSSES

TITLE: DETAIL RECORD

I D	ACCTG CODE	S T A T E	COMPANY CODE	ACCTG		EFF		EXP		TRANS		ACCIDENT			DE CL AS S C O D E	C O V E R A G E C O D E	P A Y M E N T	A M O U N T	
				Y	M	Y	M	Y	M	Y	M	Y	M	Y				M	D
	5		10	15		20		25		30		35		40	45	50	55	60	

I R C O D E	P O L I C Y N U M B E R					C L A I M N U M B E R				
		85	90	95	100	105	110	115	120	

**NORTH CAROLINA REINSURANCE FACILITY
MONTHLY ACCOUNT ACTIVITY**

COMPANY _____ CODE _____ ACCT. MONTH ENDING _____

A. WRITING CARRIER EXPERIENCE (CEDED BUSINESS)

1. Premiums Written	\$XXX,XXX.XX
2. Premiums Refunded for Disapproved Rates	\$XXX,XXX.XX
3. Recoupment.....	\$XXX,XXX.XX
4. Ceding Expenses Allowance	\$XXX,XXX.XX
5. Losses Paid	\$XXX,XXX.XX
6. Claim Expense Allowance	\$XXX,XXX.XX
7. Net Balance Due _____ * _____ (1 + 2 + 3) – (4 + 5 + 6)	\$XXX,XXX.XX

B. LOSSES NOT REIMBURSED

1. To company as of this period.....	\$XXX,XXX.XX
2. To company as of last period.....	\$XXX,XXX.XX
3. Net Balance Due _____ * _____ (1) – (2)	\$XXX,XXX.XX

C. OFFSET INVALID TRANSACTIONS FROM CLOSED POLICY YEAR \$XXX,XXX.XX

D. INTEREST PAID ON PREMIUMS REFUNDED \$XXX,XXX.XX

E. ANNUAL MEMBERSHIP FEES \$XXX,XXX.XX

F. NET SETTLEMENT AMOUNT:

Net Balance Due _____ * _____ (A7 + B3-C-D + E)

* NOTE: Insert "Facility" if net balance is a positive amount due Facility.
Insert "Company" if net balance is a negative amount due Facility.