

**IMPORTANT MATERIAL  
TO BE IMPLEMENTED**

December 12, 2013

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: (1) Recoupments  
(2) Closing  
(3) Amended Report Format

The Clean Risk Recoupment will change for new and renewal policies effective April 1, 2014 through September 30, 2014. The current clean risk recoupment of 2.25% will terminate after March 31, 2014. The **new “Clean Risks” recoupment is 4.67%** (before inclusion of agent compensation). See Exhibit 1 for a complete list of recoupment factors, effective periods and line codes.

NON-FLEET PRIVATE PASSENGER AUTOMOBILE BUSINESS

“CLEAN RISK” RECOUPMENT

For non-fleet private passenger automobile business, the “clean risk” recoupment surcharge of 4.67% (before inclusion of agent compensation) will be applicable in accordance with law to policies issued to become effective during the **six months** beginning April 1, 2014. This surcharge is to offset a portion of the premium income lost by the Facility because the law requires that “clean risks” in the Facility can only be charged the same rates as clean risks who are not reinsured in the Facility.

**The “clean risk” recoupment surcharge should be applied to the liability, medical payments, uninsured motorists and underinsured motorists coverage premiums for all non-fleet private passenger vehicles, including motorcycles, insured on personal automobile policies and not on commercial automobile policies.**

The “clean risk” recoupment surcharge is subject to the payment of agent compensation. The applicable rules and procedures and other requirements relating to recoupment are on Section 4, pages 13-1 through 13-3 of the NCRF Standard Practice Manual which we request that you review and carefully observe, especially in regard to surcharge adjustments for voluntary policies written at deviated rates. A portion of this material is attached as Exhibit 2.

The recoupment surcharge applied to premiums should be the published percentage adjusted to include the agent compensation or commission paid on non-fleet private passenger business other than commercial business ceded by your company to the Facility. Surcharges must be rounded to the nearest hundredth of a percentage point in order to assure that proper agent compensation will be provided. For example, where a carrier pays (or would pay) a 10% commission on non-fleet private passenger motor vehicle business ceded to the Facility, the “clean risk” recoupment surcharge would be **5.19%** ( $.0467 \div .90 = .0519$ ). Samples are provided on Exhibit 3.

## LOSS RECOUPMENT

No loss recoupment surcharge is to be applied to premiums for non-fleet private passenger vehicles under policies issued to become effective during the six months beginning April 1, 2014.

### OTHER THAN NON-FLEET PRIVATE PASSENGER AUTOMOBILE BUSINESS

**No recoupment surcharge is to be applied to premiums for other than non-fleet private passenger vehicles under policies issued to become effective during the six months beginning April 1, 2014.**

### CLOSINGS AND REPORTING REVISIONS

No recoupments will be closed at this time. Your company's Monthly Recoupment Report must be modified to reflect all active line codes with activity effective with the February 2014 accounting report submission (due by March 25, 2014) to the NCRF. The recoupment surcharges are to be reported in the Monthly Recoupment Report (submitted via FTP electronic file monthly) and the Recoupment Detail Report (submitted upon request by the NCRF) and identified as follows by line code – see Exhibit 1. It is understood that there will not necessarily be activity for the older line codes due to the age of the policy effective dates.

### AMENDED REPORT FORMAT

Specifications for the Recoupment Detail Report are provided in the Standard Practice Manual, Section 4 Exhibits D-1 and D-2 and in the FTP Instruction Guide available on the NCRF website, and effective October 2009 these files may only be submitted via FTP (file transfer protocol).

As to the closed “clean risk” surcharges for non-fleet private passenger business, developments subsequent to those reported in the July 2005 accounting report cycle are to be included in reports for subsequent accounting report cycles. Developments on the closed “clean risk” surcharges are to be included with the oldest open line, CR01.

**Please see to it that the above is brought to the attention of all interested personnel in your company responsible for programming, policy issuance or completing and submitting the monthly accounting reports.**

Questions regarding this circular should be directed to Bill Benton at 919-645-3187 or e-mail at: [web@ncrb.org](mailto:web@ncrb.org).

Sincerely,

Edith T. Davis

Director, Reinsurance Facility

**RECOUPMENT FACTORS**

Following are the factors for the Facility's recoupment surcharges for the periods indicated.

<b><u>Line code</u></b>	<b><u>Recoupment Type</u></b>	<b><u>Applicable to Policies Effective</u></b>	<b><u>Which Policies</u></b>	<b><u>Surcharge (before agent compensation)</u></b>
<b>CR12</b>	<b>Clean Risk</b>	<b>4/1/2014 – 9/30/2014</b>	<b>All PPNF</b>	<b>4.67%</b>
<b>Prior Recoupments still open for reporting</b>				
CR11	Clean Risk	10/1/2013 – 3/31/2014	All PPNF	2.25%
CR10	Clean Risk	4/1/2013 – 9/30/2013	All PPNF	2.25%
CR09 (revised)	Clean Risk	10/1/12-3/31/13	All PPNF	3.87%
CR08	Clean Risk	10/1/11-9/30/12	All PPNF	3.87%
CR07	Clean Risk	10/01/10-9/30/11	All PPNF	4.33%
CR06	Clean Risk	11/01/09-9/30/10	All PPNF	6.41%
CR05	Clean Risk	10/01/08-10/31/09	All PPNF	4.24%
CR04	Clean Risk	10/01/07-9/30/08	All PPNF	2.48%
CR03	Clean Risk	10/01/06-9/30/07	All PPNF	8.82%
CR02	Clean Risk	10/01/05-9/30/06	All PPNF	9.71%
CR01	Clean Risk	4/1/05-9/30/05	All PPNF	6.43%
PP01	Loss	4/1/05-3/31/06	All PPNF	4.17%

North Carolina Reinsurance Facility Standard Practice Manual  
Section 4, Chapter 13, Item C. 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. 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 so that:
  - a. Under a single-vehicle policy the total amount of the applicable recoupment surcharges be divided equally and combined with the bodily injury and property damage liability premiums only.
  - b. Under a multi-vehicle policy the total amount of the applicable recoupment surcharges be divided equally among all vehicles and that the amount assigned to each vehicle be divided equally and combined with the bodily injury and property damage liability premiums only for each vehicle.
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 payments, uninsured motorists, and underinsured motorists coverage premiums.
5. Exact surcharge amount (dollars and cents) must be charged and billed. Rounding is not permitted.
6. 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.
7. Policies may be canceled for non-payment of surcharge.
8. 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.
9. [obsolete language removed]

10. On non-fleet private passenger car business to which any deviation from standard 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 standard rates.
11. The Plan of Operation requires payment of compensation to agents in relation to recoupment surcharges. The guidelines are as follows:
  - a. Compensation shall be paid by members of the North Carolina Reinsurance Facility to agents for services performed by such agents in relation to the collection of recoupment surcharges applicable to policies written to become effective on or after October 1, 1981.
  - b. Such compensation amount shall be equal to an amount determined by multiplying (i) the percentage rate of compensation paid to agents by each member of the North Carolina Reinsurance Facility on business ceded to the Facility by (ii) the amount of the recoupment surcharge including the agent compensation. The minimum compensation to be paid to agents on business ceded to the North Carolina Reinsurance Facility, as provided in G.S. 58-37-30 (a), is 5% of the policy premium for long haul trucking applicants and public passenger carrying vehicles other than school buses and 10% of the policy premium for other risks.
  - c. The recoupment surcharge amount added to each policy premium subject thereto shall include the amount necessary for the member company to recover the compensation paid to the agent in addition to the amount determined by applying to such premium the percentage determined by the Board of Governors. For example, if (i) the percentage adopted by the Board of Governors is 11.7%, (ii) the policy covers a non-fleet private passenger automobile, and (iii) the company's compensation or commission rate for such business ceded to the Facility is 10%, then the recoupment surcharge percentage applied to the policy premium subject thereto is  $.117 / .90 = .130$  or 13.0%. If the policy covers a taxicab and the company's compensation or commission rate on such business ceded to the Facility is 5%, the recoupment surcharge is  $.117 / .95 = .123$  or 12.3%.

The amount of the recoupment surcharge shall be determined by multiplying the recoupment surcharge percentage by the policy premium subject thereto.

For example, if the policy premium is \$180 and the recoupment surcharge percentage is 13.0% the amount of the recoupment surcharge is  $\$180 \times .130 = \$23.40$ .

- d. For each recoupment the surcharge percentage applied to each policy premium subject thereto shall be the same regardless of whether the policy is ceded to the Facility or voluntarily retained by the member company. If for any reason a member company should elect to pay on voluntary business a higher percentage agent compensation or commission on recoupment amounts than it pays on business ceded to the Facility, the amount reported monthly to the Facility as recoupments written must be the same as would be reported if the compensation or commission were the same as on business ceded to the Facility.

For example, if (i) the policy covers a non-fleet private passenger automobile not ceded to the Facility (ii) the member company pays agent compensation or commission of 10% on such business ceded to the Facility, (iii) the recoupment surcharge amount determined in accordance with the above is \$23.40, and (iv) the company elects for any reason to pay the agent compensation or commission at the rate of 15%, then the amount reported to the Facility as recoupment written net of agent compensation or commission must be  $.90 \times \$23.40$  or \$21.06, not  $.85 \times \$23.40$  or \$19.89.”

### SURCHARGE CALCULATION

The “clean risk” recoupment surcharge is to be **calculated on premium amounts at full manual rates, i.e. prior to the application of any deviations, and apply to other than commercial policies ceded to the Facility as well as to other than commercial policies retained voluntarily by member companies.**

For example, consider a policy for a single-vehicle risk as shown below with total liability, medical payments, uninsured motorists and underinsured motorists coverage premiums of \$387.00 subject to the “clean risk” recoupment surcharges. This policy would have total surcharges of \$20.08 (\$387 x .0519).

Coverage	Manual PREMIUMS	Amounts to be Charged after inclusion of Recoupment Surcharges
Bodily Injury	\$164.00	\$174.04 <sup>a</sup>
Property Damage	173.00	183.04 <sup>b</sup>
Medical Payments	23.00	23.00
Uninsured/Underinsured Motorists	27.00	27.00
Total	\$387.00	\$407.08

	Total Liability Premium X Surcharge	Surcharge divided by 2 (BI,PD)
“Clean Risk” recoupment surcharge 5.19%	\$20.08	\$10.04

a: \$164.00+10.04

b: \$173.00+10.04

As another example, consider a policy for a two-vehicle risk as shown below with total liability, medical payments, uninsured motorists and underinsured motorists coverage premiums of \$1032.00 subject to the “clean risk” recoupment surcharges. This policy would have total surcharges of \$53.56 (\$1032 x .0519).

Coverage	Manual Premiums		Amounts to be charged after inclusion of Recoupment surcharges	
	Vehicle 1	Vehicle 2	Vehicle 1	Vehicle 2
Bodily Injury	\$329.00	\$123.00	\$342.39 <sup>a</sup>	\$136.39 <sup>c</sup>
Property Damage	330.00	123.00	343.39 <sup>b</sup>	136.39 <sup>d</sup>
Medical Payments	44.00	19.00	44.00	19.00
Uninsured/Underinsured Motorists	64.00	Included	64.00	Included
Total	\$767.00	\$265.00	\$793.78	\$291.78

	Total Liability Premium X Surcharge	Surcharge divided by 4 (2-BI,2-PD)
“Clean Risk” recoupment surcharge 5.19%	\$53.56	\$13.39

a: \$329.00+13.39

b: \$330.00+13.39

c: \$123.00+13.39

d: \$123.00+13.39

Note: Both examples assume a 10% agent commission.

For your convenience, included as Exhibit 2 is an excerpt from the NCRF Standard Practice Manual to provide guidance on the definition and calculation of these surcharges. Please note that the excerpt outlines procedures for recoupments on **all types of policies; the recoupments currently authorized apply only to non-fleet private passenger business and do not apply to private passenger vehicles insured on commercial policies.**