

Experience Modifications

1. ***The insured is not new business and has been with our company for several years. However, this is the first year our insured has been ceded to the Reinsurance Facility. Can we calculate the experience rating modification?***

Yes. You would use your voluntary data to calculate the experience rating modification for the ceded term. Please see instructions on this website for help calculating an experience rating modification. You will also find the Form [NCRF-24 page 1](#) and [NCRF-24 page 2](#) worksheet in Excel format on our website. This worksheet will enable you to calculate the modification by simply putting in the correct factors. The spreadsheet automatically does the final calculations for you.

2. ***The insured just started up business this year and is eligible for an experience rating modification. Do we apply the 1.50 tentative experience rating modification?***

No. A 1.00 manual rate modification applies until there is at least one full year that can be used to calculate an experience rating modification. Remember that you do **not** use the data for the year just prior to the modification date.

Note: Using one year of data would only be acceptable if there is no other prior data (i.e. new business) or the Reinsurance Facility has advised you to do so. Please be advised that if the insured changes from one business and starts a new venture, all prior data must be utilized regardless of what type of venture the insured was previously engaged in unless the ownership changed from the first venture to the second or is not the same for multiple ventures in which the insured is involved. If ownership is in question, your company must submit an [NCRF-41](#) for a ruling on ownership. The Facility will advise your company of any entities that may be combined for experience rating purposes.

3. ***We need an experience rating modification, but we have not carried this insured for the entire experience period. Can we calculate a modification using our data only?***

No, you may not use one year or partial data to calculate an experience rating modification simply because you do not have the prior carrier's data available at the time you issue the policy. You will apply the tentative 1.50 modification to the policy and submit a Form [NCRF-36](#) (located on our website) with complete prior carrier information to our office for assistance. We will contact the other liability carrier(s) and secure data for you. Upon receipt of the other carrier's data, we will provide that data to your company and you will be responsible for calculation of the final modification using the appropriate data, whether that is the prior carrier's data or the prior carrier's data in combination with your company's data. The final modification must be applied as of inception and the tentative modification removed as of inception.

NOTE: The following information is provided for your general information and represents the NCRF's interpretation of the statutes and rules governing the NCRF. This information is not offered or intended as legal advice and does not modify in any manner the statutes and rules governing the NCRF, including the provisions of the NCRF Commercial Auto Manual. If there is any conflict between this information and any applicable statutes and rules, the statutes and rules will govern. Please consult your own legal counsel on any legal questions you may have.

Instructions for Completing the Experience Rating Form

Please use the N.C. Reinsurance Facility Commercial Auto Manual when referring to rules identified below:

1. *Policy Term (Rule 83)*

".....latest available three years....at least one completed policy year...experience period shall end at least six months prior to the rating date."

Example: (03/01/05) experience rating date

Use these terms:	03/01/01-02
	03/01/02-03
	03/01/03-04

2. *Basic Limits Unmodified Premiums (Rule 84)*

Premiums should be reported at limits of 30/60/25 with BI and PD shown separately. They should include all liability premiums charged including premium change endorsements. Basic limits premiums should not include med pay or UM/UIM premiums. If policies were written at combined single limits, break the premium down into split limits BI / PD. The basic limit premiums are to be reported in column #2 of the rating form.

3. *Adjusted Expected Loss Ratio (Page 58-59)*

Find the total premium amount in the premium column.

Find the Adjusted Expected Loss Ratio factor for either (public and zone-rated) or (all-other) autos, whichever applies.

Example: (\$ 25, 775.) The factor to be placed into column #3 is .570 . The credibility factor of .25 goes at the bottom of the rating form and the maximum single loss amount of \$16,850 goes on the back of the rating form.

4. Loss Development Factor (page 57)

Determine the number of months between the loss evaluation date and the effective date of the experience rating modification.

Example: (Loss Evaluation date: 3/19/05 and the experience rating mod effective date 03/01/05).

Locate the block in the first column titled "Latest Policy Year" and determine closest to the number of months from the effective date of the modification to the date that the losses were most recently evaluated.

(24 months) Use these factors here for the latest policy term 2003/2004.

(36 months) Go across to the middle block. Use these factors for the policy term 2002/2003.

(48 months) Go across to use the last factors for the earliest policy term 2001/2002.

5. Adjustments to the Basic Limits Losses

Multiply columns 2 x 3 x 4 to get the figures for column #5.

6. Basic Limits Incurred Losses

Record total BI and PD losses for each year. If one loss date should exceed the maximum single loss value then apply the maximum single loss per accident in which it applies. Please show a breakdown of these losses on the back of the rating form or submit your worksheet. Attach a copy of the actual loss runs to the form when submitting data.

Example: (\$16,850) is the most per accident that would be applied to each loss date

7. Adjusted Incurred Losses:

Add columns #5 and #6 together for each line to get the figures for column #7.

8. Actual Loss Ratio:

Divide the *Total Losses* amount by the *Total Premium* amount to get the *Actual Loss Ratio*. Work at three decimal places.

Lines:

9. or 10. Final Mod - Determine which Line the final calculation is to be made by following the instruction for that line:

- a.) Subtract column 3 factor - column 8 factor
or
Subtract column 8 factor – column 3 factorwhichever applies
- b.) Divide by the column 3 factor
- c.) Multiply by the credibility factor
- d.) Add to or subtract from 1.00
- e.) This final factor should be rounded to 2 places past the decimal point.

NOTE: The following information is provided for your general information and represents the NCRF's interpretation of the statutes and rules governing the NCRF. This information is not offered or intended as legal advice and does not modify in any manner the statutes and rules governing the NCRF, including the provisions of the NCRF Commercial Auto Manual. If there is any conflict between this information and any applicable statutes and rules, the statutes and rules will govern. Please consult your own legal counsel on any legal questions you may have.

How to determine Years to use in an experience period

Go back 4 years prior to effective date of mod. First policy period used in data must be effective within 6 months of the effective date of the first year of the experience period. The last policy period used in data must expire at least 6 months prior to the effective date of the mod.

Example: Mod effective 10/01/04

Experience Period: 4-1-00
 (+ 6 months)
 10-1-00/01
 10-1-01/02
 10-1-02/03
 (+ 6 months)
 4-1-03

Previous Policies Effective: 10-1-99/00 (do not use)
 10-1-00/01 (use)
 10-1-01/02 (use)
 10-1-02/03 (use)
 10-1-03/04 (do not use)

BROKEN POLICY TERMS IN AN EXPERIENCE PERIOD

Example: Mod effective 10-01-04

Experience Period: 4-1-00
 (+6 months)
 10-1-00/01
 10-1-01/02
 10-1-02/03
 (+6 months)
 4-1-03

Previous policies effective: 03-1-00/01 (do not use)
 03-1-01/02 (use)
 03-1-02 to 10-1-02 (use)
 10-1-02/03 (use)
 10-1-03/04 (do not use)

NOTE: The following information is provided for your general information and represents the NCRF's interpretation of the statutes and rules governing the NCRF. This information is not offered or intended as legal advice and does not modify in any manner the statutes and rules governing the NCRF, including the provisions of the NCRF Commercial Auto Manual. If there is any conflict between this information and any applicable statutes and rules, the statutes and rules will govern. Please consult your own legal counsel on any legal questions you may have.

EXPERIENCE MODIFICATIONS

1. You can use data from other states – voluntary or the applicable Residual Market plan. May be from various companies. DO NOT USE SELF INSURED DATA.
2. On a policy with registration plates not issued for a specific automobile (Rule 87), count each set of plates as a vehicle for experience rating purposes. If a policy covers registration plates and scheduled vehicles, these would be combined for fleet or non-fleet status.
3. If a policy covers a new entity or one which has had a material change in ownership, the risk may be experience rated using at least one full year's data (if available). Please note that a new venture is not considered new business for experience rating purposes unless the insured has had no other prior ventures or a material change in current ownership has occurred. Experience data from all ventures which the insured owns currently and prior shall be combined. Please see NCRF Commercial Auto Manual pages E-9 and E-10 for clarification.
4. If an insured has more than one policy or a combination of auto premium and garage liability premium, combine the basic limits premium to determine if the risk meets the \$6,500 minimum premium eligibility requirement.

Basic Limit Premium Basis
Example: Policy A - \$4,500 Garage policy
Policy B - \$2,000 Auto policy w / 2 units scheduled
\$6,500

5. When there are multiple policies, the risk may be eligible for experience rating if the combined number of vehicles equal 5 or more OR the combined basic limits premium for 3 units equals at least \$6,500 for the annual manual premium.

Example: 2 units on Policy 1 (ceded to the reinsurance facility)
3 units on Policy 2 (retained in voluntary market)

Each policy alone would not qualify for experience rating, but the policy premiums and number of units combined make the ceded policy eligible for experience rating.

Example: unit on Policy 1 (ceded or Voluntary) \$2,500 at basic limits 2
units on Policy 2 (ceded or Voluntary) \$4,000 at basic limits
Equal: \$6,500 basic limits annual manual combination

6. Data from non-admitted carriers can be utilized to calculate experience modifications.