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January 10, 1996

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Motorcycle Rates and Escrowed Premiums - 1994 Private Passenger Automobile Insurance Rate Filing Case

By Circular Letter to All Member Companies A-94-24 dated December 16, 1994, the Rate Bureau advised member companies to implement revised automobile insurance rates over the disapproval of the Commissioner of Insurance effective January 1, 1995. As set forth in that Circular Letter, the overall implemented rate level change for automobile insurance approved by the Governing Committee was +4.4%. The overall rate level change ordered by the Commissioner of Insurance for automobile insurance was -13.8%. Member companies were advised that they were responsible for the establishment of and accounting for an escrow account in which to maintain "the purportedly unfairly discriminatory or excessive portion of the premium collected" (i.e. the difference between the rates for private passenger automobiles ordered by the Commissioner and those set forth herein) pending judicial review." At the same time, member companies were instructed to implement the overall motorcycle rate level change of 10.2% approved by the Commissioner effective January 1, 1995.

The rate level change ordered into effect by the Commissioner of Insurance was made up of (1) a prospective rate level change determined by the Commissioner to be appropriate and (2) an amount designated as a "filing date adjustment." During 1993, the legislature amended the law in North Carolina to change the filing date for automobile rate filings from on or before July 1 of each year to on or before February 1 of each year. This change required the Rate Bureau to delay its July 1, 1993 filing until February 1, 1994. The legislature at the same time specifically provided that the Rate Bureau could include in its February 1, 1994 filing an additional factor to compensate for the change in the filing date. The Rate Bureau in fact did include such a "filing date adjustment" in its 1994 Filing. The Commissioner disapproved this adjustment along with the rest of the Filing and included his own "filing date adjustment" in the rate level changes he ordered. With respect to motorcycle insurance rates, the Commissioner in effect found that motorcycle insurance rates had been too low during the period covered by the change in filing date, and his "filing date adjustment" served to compensate for that shortfall in premium. The Commissioner's ordered motorcycle rate level change included an additional percentage increase for the one year period beginning with new policies written effective January 1, 1995 and renewal policies written effective February 15, 1995 designed to collect that amount of premium over that one year period. With respect to automobile insurance rates, the Commissioner in effect found that automobile insurance rates had been too high

during the period covered by the change in filing date, and his "filing date adjustment" served to "return" the purportedly excessive portion of the rates. The Commissioner's ordered automobile rate level change included an additional percentage decrease for the one year period beginning with new policies written effective January 1, 1995 and renewal policies written effective February 15, 1995 designed to "return" that amount of premium over that one year period.

The Commissioner's prospective motorcycle rate level change, without any recognition of the "filing date adjustment" he ordered, was an overall increase of 7.6%. The inclusion of his filing date adjustment increased this 7.6% change for motorcycle coverages to his ordered overall change of 10.2%. The Rate Bureau implemented the Commissioner's ordered motorcycle rates. As noted above, that portion of the Commissioner's ordered rate level change in motorcycle rates caused by his "filing date adjustment" applied for only one year. The Commissioner's ordered rate level changes revert to the 7.6% increase for motorcycles after that one year period. Therefore, solely with respect to new policies written on and after January 1, 1996 and renewal policies written on and after February 15, 1996, the motorcycle insurance rates set forth on pages 5 and 6 of Circular Letter A-94-24 are revised in accordance with the comparable pages attached hereto. The Rate Bureau suggests that policies written after such dates that were not based on these revised rates be adjusted so as to reflect these new rates.

With respect to automobile insurance rates, the member companies must continue to escrow the difference between the Commissioner's ordered rates and the Rate Bureau rates implemented and collected pending judicial review. However, that portion of the Commissioner's decrease in automobile insurance rates caused by his "filing date adjustment" also affected rates for only one year. The Commissioner's overall rate level change for automobile insurance rates, without any recognition of his ordered "filing date adjustment," was a decrease of 9.7%. The inclusion of his filing date adjustment further reduced his ordered rate level decrease to -13.8%. The Commissioner's ordered rate level changes revert to the 9.7% decrease for automobile coverages after that one year period. Since the difference between the Commissioner's ordered rates and those implemented by the Rate Bureau is reduced, the amounts required to be escrowed are similarly reduced. With respect to new policies written on and after January 1, 1996 and renewal policies written on or after February 15, 1996, the Private Passenger Automobile Insurance Rate Changes Ordered by the Commissioner set forth on page 2 of Circular Letter A-94-24 are amended as follows:

Coverages	Private Passenger Automobile Insurance Rate Changes Ordered By the Commissioner	Private Passenger Automobile Insurance Rate Changes Implemented By the Governing Committee
Bodily Injury	2.7%	22.2%
Property Damage	-12.6	-1.4
Medical Payments	-2.6	13.7

Uninsured Motorists	29.5	49.8
Underinsured Motorists	10.0	29.9
Total Liability	-0.4%	16.6%
Comprehensive	-25.9%	-18.2%
Collision	-23.9%	-15.0%
Total Physical Damage	-24.6%	-16.2%
Grand Totals	-9.7%	4.4%

Attached hereto are exhibits setting forth the base rates by territory (when applicable) ordered into effect by the Commissioner effective January 1, 1995 which reflect the elimination of the Commissioner's "filing date adjustment" and the base rates by territory (when applicable) implemented by the Rate Bureau effective January 1, 1995. Also displayed are the factors which, when applied to the base rates implemented by the Rate Bureau, result in the actual amounts by which the Rate Bureau's implemented base rates exceed the base rates ordered by the Commissioner, after reflecting the elimination of the "filing date adjustment."

Except as amended by this circular letter, Circular Letter A-94-24 continues to apply with respect to changes in policy premiums and escrow procedures until you are further notified by the Rate Bureau.

Please see to it that this circular letter is brought to the attention of all interested personnel in your Company.

Very truly yours,

John W. Watkins

General Manager

- [Enclosure 1](#)
- [Enclosure 2](#)
- [Enclosure 3](#)
- [Enclosure 4](#)

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