



May 21, 2025

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Standard Practice Manual Revisions

Summary:

- **Revised Sections:** 3 - General Rules, 4 - Accounting & Statistical Requirements
- **NC Statutory Changes:** Revisions were made to align with updated language
- **Cession Limit Codes:** Changes made to manual as noted in prior circular [RF-25-8](#)
- **Editorial changes:** "Other" approved changes

The Board of Governors has approved the following revisions to the North Carolina Reinsurance Facility Standard Practice Manual (material to be inserted is underlined and material to be deleted is struck through). This project was launched in response to upcoming statutory changes and recent programming updates to the EDGE system. In addition, other editorial updates and improvements were made.

Although not included in this circular, changes to Section 2 - Plan of Operation will also be proposed this year due to upcoming NC statutory changes. These revisions will be communicated prior to the October 22, 2025, annual meeting for a member company vote to be held during the meeting.

Any questions regarding these revisions should be directed to Kevin Braswell at 919-719-3029 or email at: KDB@ncrb.org.

Sincerely,

Terry F. Collins

Chief Operating Officer

North Carolina Reinsurance Facility

TFC: lad

Attachments

RF-25-12

STANDARD PRACTICE MANUAL
NORTH CAROLINA REINSURANCE FACILITY

Section 3

GENERAL RULES

A. Purpose of Rules of Operation

The Rules of Operation (Sections 3 through 6 of this Manual) are intended to provide guidelines to insurers and agents for processing of policies ceded to the Facility to insure understanding and consistency of cession practices among all companies writing motor vehicle liability insurance within the state of North Carolina. In addition, the Rules of Operation:

1. Establish the necessary procedural, accounting, statistical claims and auditing instructions required to administer the North Carolina Reinsurance Facility.
2. Provide specifications and definitions as required by the Plan of Operation.

B. Effective Date

The North Carolina Reinsurance Facility shall become effective on October 9, 1973, as ordered by the Commissioner of Insurance.

C. Eligibility

Insurance shall be available to any applicant who completes an application and who is an Eligible Risk as defined in Article II of the Plan of Operation. All motor vehicles as defined under Article 1 of Chapter 20 of the General Statutes of North Carolina shall be eligible for insurance. Any policy that must be written by an insurer under the aforementioned conditions is eligible for cession.

A risk is ineligible for cession to the Facility:

1. If timely payment of premium is not tendered, or
2. If a valid unsatisfied judgment of record exists against such risk for recovery of premium amounts due.

Note: A risk shall be considered eligible in the absence of information in the company's file indicating an outstanding unsatisfied judgment. Additionally, subsequent knowledge of the existence of such judgment shall not invalidate the cession, but if the judgment remains outstanding, the company shall not be permitted

to cede the risk at the time of renewal.

D. Extent of Coverage

Policies issued to risks ceded to the Facility shall have the contract terms established by the Board of Governors and filed with the Commissioner of Insurance. Such contract terms will be disseminated by or on behalf of the Facility.

The ceding privileges are as follows:

1. ~~For~~ For eligible risks (except as provided in Subparagraph 2. below) motor vehicle insurance coverage up to the following limits shall be eligible for cession to the Facility: ♦

- a. Bodily Injury Liability:

\$100,000 Each Person; \$300,000 Each Accident

- b. Property Damage Liability:

\$50,000 Each Accident

- c. ~~Single Limit Bodily Injury And Property Damage Liability:~~

~~A limit per accident equal to the total of the minimum per accident Bodily Injury and Property Damage Liability limits required under the North Carolina Vehicle Financial Responsibility Act of 1953 as it is in effect on the date of cession to the Facility.~~

- ~~c.~~ d. Medical Payments:

\$2,000 Each Person, except that this coverage shall not be available for motorcycles.

- d. e. Uninsured Motorists:

\$1,000,000 Each Person and \$1,000,000 Each Accident for Bodily Injury, \$50,000 for Property Damage (\$100 Deductible).

- e. f. Combined Uninsured And Underinsured Motorists:

\$1,000,000 Each Person and \$1,000,000 Each Accident for Bodily Injury and, for Uninsured Motorists, \$50,000 Each Accident for Property Damage (\$100 deductible).

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2. If an eligible risk is subject to motor vehicle insurance or financial responsibility limits required by:
- a. Any federal law or federal agency regulation;
 - b. Any law of the State of North Carolina;
 - c. Any rule duly adopted under Chapter 150B, General Statutes of North Carolina; or
 - d. Any rule duly adopted by the North Carolina Utilities Commission

~~m~~Motor vehicle insurance coverages up to the limits required by such law or rule shall be eligible for cession to the Facility.

3. For persons who must maintain liability coverage limits above those available under Subparagraph D.1 of this Section in order to obtain or continue coverage under personal excess liability or personal "umbrella" insurance policies, motor vehicle insurance coverage up to the following limits shall be eligible for cession to the Facility:

- a. Bodily Injury Liability:
\$250,000 Each Person; \$500,000 Each Accident
- b. Property Damage Liability:
\$100,000 Each Accident
- c. ~~Single Limit Bodily Injury And Property Damage Liability:~~

~~A limit per accident equal to the total of the minimum per accident Bodily Injury and Property Damage Liability limits required under the North Carolina Vehicle Financial Responsibility Act of 1953 as it is in effect on the date of cession to the Facility.~~

- c. ~~d.~~ Medical Payments:
\$5,000 Each Person, except that this coverage shall not be available for motorcycles.

- e. ~~Uninsured Motorists:~~
~~\$1,000,000 Each Person and \$1,000,000 Each Accident for Bodily Injury, \$50,000 for Property Damage (\$100.00 Deductible).~~

- d. ~~f.~~ Combined Uninsured And Underinsured Motorists:

\$1,000,000 Each Person and \$1,000,000 Each Accident for Bodily Injury and, for Uninsured Motorists, ~~\$50,000~~ 100,000 Each Accident for Property Damage (\$100 deductible).

E. Notice of Cession

▼ In order to cede a risk to the North Carolina Reinsurance Facility a Notice of Cession must be submitted. Companies may elect to use any one or a combination of the following methods:

1. Telecommunication via File Transfer Protocol (FTP)
2. Data entry via online access to the Facility information system, EDGE

See following pages for instructions for methods 1 and 2.

The Notice of Cession is a multi-purpose record used to report: ❖

New Policies

A new policy may be ceded as of the effective date if proper notification is received by the Facility not more than 30 days after the policy or binder effective date.

Renewal

Policies that come up for their normal expiration may be ceded if proper notification is received by the Facility not later than the expiration date of the current policy term. In such cases, the cession will become effective as of the effective date of renewal, but in no event shall such cession be retroactive.

▼ **Note:** Cession notices may be submitted not more than 90 days prior to the effective date of the policy for either new or renewal business. ❖

Mid—Term Cessions

The Facility shall accept in-force eligible risks for cession at times other than on the effective date of an original policy or binder or at renewal of an existing policy upon receipt of the required notice, but in no event shall such cession be retroactive.

Flat Cancellations

Where a new policy or a renewal policy which has been ceded to the Facility is not taken and no premium has been entered, the cancellation is

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to be reported by submitting another Notice of Cession (Transaction Code 4 - Policy or Renewal Not Taken). If premium has been entered, the flat cancellation is to be reported only through the Monthly Detail Premium Report. See Paragraph G.

General

When the insured changes an automobile under a ceded policy, or when policy coverages or limits are changed, the policy remains ceded (subject to the limitations of coverages and limits that may be ceded) without notification to the Facility of the change. Any change in premium must be reported through the Monthly Detail Premium Records.

The addition of a newly acquired car to a ceded policy requires no cession notice to the Facility. The additional car becomes a part of the ceded policy. Any change in premium will be reported in the Monthly Detail Premium Records.

Changes on a ceded policy which result in a change in premium but no change of coverage are not to be reported to the Facility on Notice of Cession at the time of change.

Examples of the changes would be:

- Change of address
- Change of classification
- Cancellations

Any change in premium will be reported in the Monthly Detail Premium Records.

Except as provided under New Policies and in the note under Renewal, the received date at the Facility of the Notice of Cession shall be used as the cession date of the business unless the ceding insurer has requested a future effective date. Notice of Cession can only be filed by a member company. To qualify as an acceptable cession, the Notice of Cession must be fully completed as prescribed in the "Instructions for Creating Notice of Cession Records section.

If a Notice of Cession submitted to the Facility through an FTP cession file cannot be processed, it will appear on the company Error List accessible online in the EDGE system. An error code and description will advise the company of the error detected. When a cession is entered online through EDGE, the system will not allow the cession to be submitted until all errors have been corrected. The system will prompt the company to correct any errors detected.

If a company cedes a policy covering more than one motor vehicle, the entire policy must be ceded subject to the limitations of coverages and limits that may be ceded.

If a company issues two or more separate policies to the same named insured, some policies may be ceded and others retained as regular business.

On policies that are canceled and reinstated with no lapse in coverage, the cession will be considered as continuing in force without interruption. On policies that are canceled and reinstated with a lapse in coverage, the cession will be reinstated as of the reinstatement date of coverage subject to no more than 30 days between the cancellation and reinstatement date. Information regarding these transactions will be included in the Monthly Detail Premium Record(s).

Records Specifications

The Notice of Cession should be an electronic record either uploaded by the member company to the NCRF via FTP file or created online in EDGE.

1. FTP submission: Refer to the NCRF FTP Instruction Guide available on our website for file specifications regarding cession records submitted via FTP. Cession records reported in electronic format via FTP, will receive confirmation that the file was received in the form of an email which confirms receipt of the file and provides the date received and the number of records contained in the file. Cessions records received this way will be processed overnight and an acknowledgment report detailing the records received and processed will be available online in EDGE the next day. The Cession Acknowledgement Summary is confirmation that the cession was received and can be presented to the Facility by a company as proof to verify ceded coverage for any policy in question.
2. Online cession entry: The EDGE system has a data entry feature which allows companies to enter cession information and once submitted, cedes the policy in real-time. An acknowledgment report is available online for cessions reported via this method and is confirmation that the cession was received and can be presented to the Facility by a company as proof to verify ceded coverage for any policy in question.

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Instructions for Creating Notice of Cession Records

The following instructions apply to the individual items contained in this record:

1. **Carrier Type**—Enter code to reflect type of relationship.
 - a. Regular
 - b. Designated
2. **Company Code**—The company code is prefilled in the EDGE online data entry screen based on the login id of the user.
3. **Company Name**—The company name is prefilled in the EDGE online data entry screen based on the login id of the user.❖
4. **Policy Number**—Enter the complete policy number. This number must be the same number that is used to identify the transaction of the monthly detail reports as outlined in the Accounting and Statistical Section. Do not enter a binder number.
5. **Name of Insured**—Enter the last name first, followed by the first name, and middle initial. For partnerships, corporations, etc., enter the full name.
6. **Effective Date**—Enter the effective date of the binder, policy or renewal representing the policy period of cession. (See instruction H. regarding Mid-Term Cessions.)
7. **Expiration Date**—Enter the expiration date of the policy period. A notice of cession for a policy period of more than one year will not be accepted, except that where the policy effective date is on the 29th, 30th or 31st day of a month (26th through 29th of February), and the policy expiration date is on the first day of the following month of the following year a notice of cession for such policy term will be accepted. Annual notices of cession are required for three-year policies if coverage for the entire policy period is to be ceded to the Facility.
8. **Effective Date of Cession**—This date need **not** be entered for Trans. Codes 1, 2, and 4 since the date of cession can be determined by the Facility in accordance with established rules relating to type of transaction, i.e., binder, new policy, etc.

For Trans. Codes 1 and 2 that are not received by the Facility in time to be full term

ceded, the EDGE system will change the Trans. Code to a 3 and the effective date of cession to the receipt date. Cessions made mid-term by the system will be listed on the Cession Acknowledgement Summary report under "Accepted Cessions Changed to Mid-term."

For Trans. Code 3, the company may establish the cession date provided such date is not earlier than the date of receipt of the Notice of Cession by the Facility.

9. **Class Code**—Enter the code to reflect the classification of the risk, such as:
 - 1 - Private Passenger Non-Fleet (includes motorcycles written on Private Passenger policies).
 - 2 - Vehicles subject to motor vehicle insurance or financial responsibility limits required by any federal law or federal agency regulation; by any law of the State of North Carolina; or by any rule duly adopted under Chapter 150B of the General Statutes or by the North Carolina Utilities Commission.
 - 3 - All Other Risks (Commercial)
 - 4 - Combination of Codes 1 and 3 above. For example, both private passenger and commercial vehicles may be covered by the ceded policy.
 - 5 - Persons who must maintain liability coverage limits above those available under Subparagraph D.1 of this Section in order to obtain or continue coverage under personal excess liability or personal "umbrella" insurance policies.
10. **Transaction Code** — Enter the one-digit transaction code applicable to the risk ceded.

Codes are as follows:

 - 1- Binder or new policy.
 - 2- Renewal policy.
 - 3 - Mid-term cession.
 - 4 - Policy or renewal not taken. (If a cancellation transaction will be submitted through the Monthly Detail Premium Record, no Notice of Cession record is needed to reflect such termination.

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- 11. Coverages and Limits**—Enter the limits for each coverage eligible for cession. Entry of the limits amount will indicate the coverage ceded. If two or more cars are insured under ~~one the~~ policy ~~and the same~~ liability coverages ~~or the and same~~ limits ~~are not~~ must be carried on all cars. ~~show all coverages in force under the policy and the highest limits in force. For example, if the ceded policy covers the following:~~

~~Car 1 ————— Car 2~~
~~BI 30/60 ————— BI 50/100~~
~~PD 25 ————— PD 25~~
~~MEDICAL 1,000~~
~~UM 30/60/25 ————— UM 30/60/25~~
~~UM/UIM ————— UM/UIM~~
~~Show the limits as follows:~~
~~B.I. — P.D. — MEDICAL — UM — UM/UIM~~
~~50/100 25 1,000 30/60/25~~

Notices of Cession – Electronic Transmission via File Transfer Protocol (FTP)

The Facility is prepared to accept data transmitted via FTP. Please refer to the NCRF FTP Instruction Guide available on our website for more information.

- Exhibit A shows the coding instructions for policy limits.

If the transmittal file cannot be processed, the Facility will promptly email the member company with details of the errors causing the failure. Member companies will need to correct the errors and retransmit the file on the same day to retain the same receipt date.

The Facility will provide the ceding company with an email acknowledgement of the receipt of the file and the record count the same day the file is transmitted. The cessions will be validated overnight and an acknowledgement report with the details of the cessions received will be available online in the EDGE system the next day. It is confirmation that the cession notices were received and can be presented to the Facility by a company as proof to verify ceded coverage for any policy in question.

F. Corrections to the Notice of Cession

1. Purpose

After a policy has been ceded and notice of cession has been processed and accepted into the master file, an error may be detected by the Facility, or the company which requires a correction to the cession record. All corrections to the cession record will need to be made online in the EDGE system. See Section 4 for procedures to correct Notices of Cession which have not been accepted into the master file.

2. How to make a correction to a Notice of Cession
 - a. A member company user must first have a valid password and user ~~id~~ ID issued by the NCRF to access the EDGE system through the Web Application portal on the NCRF website.
 - b. Once logged in to EDGE, the appropriate record can be accessed under the Cessions tab.
 - c. The data fields which can be modified will appear on the screen below the original cession information submitted. Enter the new information in these data fields and click submit. The user will either receive a message that the change was successfully processed or an error message advising that the requested change failed. If the change failed, the user will be advised why it failed and can re-enter the new information correctly.
3. When to make a correction to a Notice of Cession
 - a. Any error in policy number, effective date, expiration date, carrier type, class code, or company code must be corrected. Substantive corrections, such as spelling and reissuing under a new policy number, or retroactive changing policy effective or expiration date, must be explained by accompanying documentation, and adequate data retained in company files for audit verification.
 - b. Any significant error in other data on the Notice of Cession should be corrected unless that data will be corrected in the course of other transactions. The following comments apply:
 - (1) Name of Insured - This is reference information, and does not need to be filed.

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Class Code - It is recognized as normal for an addition, deletion, or change of vehicle to involve a change from one class code to another. The appropriate premium entry as defined in Section 4 will convey that information, and no correction to the cession record is required. However, if the original class code filed on the cession was in error, a correction would need to be made to the cession record.

Example: A cession is submitted with a class code 3 (All Other) and it should have been coded as a class code 2 (Subject to Higher Limits). This class code change would need to be made to the cession record in order for it to be accurately reflected in the Facility's records which are tracked by classification.

- (2) Transaction Code-A correction to the Notice of Cession should be submitted only when the error is material. For example, if the original Notice of Cession were received by the Facility before the policy effective date, cession is effective on the effective date of policy whether new business or renewal, and there is no need to change. Likewise, Notice of Cession received by the Facility more than 30 days after the effective date of policy will have the same mid-term cession date whether new or renewal, and no change is needed. But if an item coded "new business" was in fact "renewal", and was received between the effective date and the thirtieth day, there is an error condition which must be corrected.
- (3) Coverages and limits - Changes are subject to the limitations in Paragraph D., but need not be reported. Premium changes, however, must be reported as provided in Section 4.

G. Termination of Cession

1. Expiration

Cession of a risk automatically terminates on the expiration date of the policy period covered by the Notice of Cession, unless the policy has been terminated at an earlier date.

Please note that the Plan of Operation requires the risk to have underwriting review and the Facility to be again notified of cession prior to the renewal effective date if cession of the risk is to be continued. This requirement applies to each subsequent renewal.)

2. Flat Cancellation

When a company cedes a risk for a renewal term and the policyholder does not pay any renewal premium, the company must notify the Facility of termination of cession (See Paragraph E.). This shall be done in one of two ways depending on the accounting practices of the company.

- a. If the company has submitted a cession record only for the ceded policy, then the company must notify the Facility of termination of cession by canceling the cession via online data entry in EDGE, or through a transaction Code 4 cession sent in an FTP cession file. Such notice must be submitted to the Facility by not more than 90 days after the renewal effective date.

Flat cancellations made after 90 days from the effective date of cession will be suspended pending review by NCRF and will be processed separately.

- b. If the company does record the renewal quotation as written premium and cancels such amount when the renewal is not taken, the termination of cession will be accomplished either through the Monthly Accounting Detail Premium Report or through cancellation premium created directly online in EDGE, and the Notice of Cession record should not be cancelled ~~on~~ online in EDGE on such not-taken renewals.

3. Termination of Insurance

~~Section G.S. 58-37-50 of Article 37~~ covers reasons for termination of insurance. This subsection reads as follows:

No member may terminate insurance to the extent that cession of a particular type of coverage and limits is available under the provisions of this Article except for the following reasons:

- a. Non-payment of premium when due to the Insurer or Producing Agent.

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- b. The named insured has become a non-resident of this State and would not otherwise be entitled to insurance on submission of new application under this Article.
- c. A member company has terminated an agency contract for reasons other than the quality of the agents' insureds or the agent has terminated the contract and such agent represented the company in taking the original application for insurance.
- d. When the insurance contract has been canceled pursuant to a Power of Attorney given a company licensed pursuant to the provisions of G.S. 58-35-5.
- e. The named insured, at the time of renewal, fails to meet the requirements contained in the corporate charter, articles of incorporation, and/or bylaws of the insurer, when the insurer is a company organized for the sole purpose of providing members of an organization with insurance policies in North Carolina.
- f. The named insured is no longer an eligible risk under G.S. 58-37-1.

In accordance with the instructions in the initial part of this rule, it should be apparent that when insurance terminates the cession is likewise terminated. If the termination of insurance results in an accounting transaction for the purpose of canceling written premium, the Facility will be notified of the termination of cession through the Monthly Detail Premium Records. If the termination occurs at the end of the policy period, cession automatically terminates.

★G.S. 58-2-164 provides:

If an applicant provides false or misleading information material to the applicant's or any named insured's status as an eligible risk and that fraudulent information makes the applicant or any named insured appear to be an eligible risk when that person is in fact not an eligible risk, the insurer may do any or all of the following:

- (1) Refuse to issue, amend, or endorse a policy.
- (2) Cancel or refuse to renew a policy that has been issued
- (3) Deny coverage for any claim by the applicant for auto liability,

comprehensive, or collision coverage. This subdivision does not apply to bodily injury or property damage claims of innocent third parties to the extent of any minimum financial responsibility requirement of State or federal law.

Any motor vehicle liability policy may provide that the insured shall reimburse the insurer for any payment made under a policy of insurance if the issuance of the policy was induced by a knowing and material misrepresentation of facts relating to the insured's status as an eligible risk. For purposes of this subsection, a payment made shall include any sums paid for satisfaction, in whole or in part, of any judgment against the insured or for a reasonable settlement of a claim against the insured for bodily injury or property damage. A payment made shall further include any costs or attorneys' fees incurred by the insurer in the adjustment, investigation, or defense of a claim.❖

4. Business Retained as Voluntary

In order to "uncede" a policy in term, and the risk is to be retained by the company for the remainder of the policy term as voluntary business, a member company submits an online request for the withdrawal of a cession by entering a 'withdrawal date' for the appropriate record in the EDGE system. The date entered will be validated by the system and successful submission of the cession withdrawal request will be confirmed by the system. The member company will receive a message confirming successful withdrawal of the cession. (It will also be shown on the Online Cession Activity Report for the date of the submission). This request for withdrawal must be received by the Facility not later than thirty days after the proposed cession withdrawal date in order to preserve that date. For any such withdrawal request received more than thirty days after the proposed withdrawal date indicated by the Company, the earliest eligible date of withdrawal will be 30 days prior to the date the request is entered into the EDGE system. EDGE will display the earliest withdrawal date that may be used. Any subsequent date up to the policy expiration date may also be used.

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H. Reinstatement of Cession

1. Purpose

When a flat canceled policy has been reinstated or a Transaction Code 4 cession was submitted in error.

2. How to Reinstatement a Cession

- a. A member company user must first have a valid password and user ~~id~~ ID issued by the NCRF to access the EDGE system through the secure Web Application Portal.
- b. Once logged in to EDGE, the appropriate record can be accessed under the Cessions tab and selected for reinstatement.

Note: Only cessions cancelled with a Transaction Code 4 cession or canceled ~~via~~ online should be reinstated online. Policies canceled through premium entries should be reinstated through premium entries.

I. Rules And Rates; Policy Forms

All policies issued on risks ceded to the Facility shall be in accordance with the policy forms and endorsements and with the rules, rates, and rating plans established by the Board of Governors, or by a licensed or statutory rating bureau or organization authorized by the Board of Governors, and filed with the Commissioner of Insurance. Such forms, rules, rates, and rating plans will be disseminated by or on behalf of the Facility.

J. Commissions

Commissions paid to Producers on business ceded to the North Carolina Reinsurance Facility are subject to minimums as provided in Section G.S. 58-37-30. ~~of Article 37.~~ These minimums are defined as not less than the commission on insurance coverage written through the North Carolina Automobile Insurance Plan on May 1, 1973 which is as follows:

1. For long-haul trucking applicants and public passenger carrying vehicles other than school buses, 5% of the policy premium for commission to a licensed producer designated by the insured.
2. For other applicants, 10% of the policy premium for commission to a licensed producer designated by the insured.

3. On any applicant rated and domiciled outside of this State, the licensed producer may be paid only that portion of the producer's commission specified above which is permissible under the laws of the state in which the applicant is rated and domiciled.

The same commission must apply uniformly statewide. Commissions paid on business submitted to designated carriers are contained in Paragraph ~~K~~ L of this Section.

K. Right of Appeal

Any person aggrieved with respect to the operation of the Facility may request a formal hearing and ruling by the Board on any alleged failure to comply with the Plan or any alleged improper act or ruling in the administration of the Facility. Procedures establishing hearings, appeals, etc., are found in Article XV, "Hearings, Review" of the Plan of Operation.

L. Designated Agents And Carriers

1. Designated Agents

The Board of Governors will contract with one or more members as designated carriers to appoint and contract with qualified designated agents in accordance with Article XIII of the Plan of Operation subject to the following:

- a. Such appointment shall be made within 20 days after receipt of the Commissioner's determination and certification, satisfactory to the Board of Governors, that an agent has met the standards and security requirement specified in G.S. 58-37-35(g)(6).
- b. Separate individual agents who are part of a single agency entity will be assigned to the designated carrier.
- c. Except as provided in d., e., ~~and~~ f. of this Subparagraph, each designated agent shall agree that all eligible motor vehicle insurance risks applying for coverage at limits which may be ceded to the Facility produced (a) by such designated agent or by the agency with which such agent ~~or by the agency with which such designated agent~~ is associated or (b) by any other agency with which such designated agent is associated or which is affiliated with the agency with which such designated agent is associated, shall be written by the designated carrier, provided, however, that such designated

agent may petition the Board of Governors for a partial exemption from the foregoing requirements of this Subsection with respect to an agency in a separate geographical location. Each designated agent shall agree further that no eligible motor vehicle insurance risks applying for coverage at limits which may be ceded to the Facility shall be accepted under any form of brokerage arrangement by the designated agent, by the agency with which the designated agent is associated, or by any agency affiliated with the agency with which such designated agent is associated, for submission to the designated carrier.

- d. Designated agents appointed before September 1, 1987 may place liability insurance policies with a voluntary carrier if and only if all policies written by the voluntary carrier are either (i) retained by the voluntary carrier or (ii) ceded to the Facility using Facility rates. Designated agents who place business with a voluntary carrier must provide the Facility a list of policies written by their voluntary carrier. Such list shall be on a form approved by the Facility and shall be furnished at least annually and otherwise as requested by the Facility.

Any designated agent who is disabled or retiring or the estate of any deceased designated agent may transfer the designation and the book of business to some other licensed fire and casualty agent meeting the requirements of law and under rules established by the Facility, and a transfer from a designated agent appointed before September 1, 1987, shall entitle the transferee designated agent to place liability insurance policies with a voluntary carrier. Such transfer shall immediately terminate the authority of such designated agent or his estate to operate as a designated agent.

- e. If a designated agent is or becomes a licensed agent of a member exempted by the Board of Governors under Article XIV of the Plan of Operation and if such designated agent is or becomes authorized by such exempt member to solicit and accept premiums for motor vehicle insurance for any category of business for which such member is not exempt, such designated agent shall not

submit to the designated carrier any motor vehicle insurance risks in any category of business with respect to which the agent is so authorized by the exempt member.

- f. If contrary to the provisions of this Subsection a designated agent or the agency with which a designated agent is associated obtains and places with a voluntary carrier motor vehicle liability insurance eligible for cession to the Facility, the designated agent status shall be withdrawn by the Facility.

2. Designated Carriers

The Board of Governors may designate member companies as "designated carriers" to whom designated agents may be appointed pursuant to G.S. 58-37-35(g)(6). To be eligible to become a designated carrier, a member company must:

- a. Be licensed in North Carolina to write and actively writing voluntary motor vehicle insurance as defined in G.S. 58-37-1(7), in sufficient volume in North Carolina to assure that it will have a significant financial interest in the adoption and use of reasonable underwriting guidelines.
- b. Satisfy the Board that it has and will maintain underwriting procedures and criteria assuring that business produced by designated agents will be appropriately classified and rated, pursuant to G.S. 58-37-35(g)(6).
- c. Satisfy the Board that it has and will maintain the ability to provide policywriting, claims service, accounting and reporting functions adequate (a) to serve the business produced by designated agents and (b) to comply with the Facility's Plan and Rules of Operation.
- d. (a) Have a Best's Policyholders' Rating Classification of at least B+, and have passed at least eight of the National Association of Insurance Commissioners' Insurance Regulatory Information System (IRIS) tests for the last year for which test results are generally available; or (b) otherwise satisfy the Board that its financial condition is and will be

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adequate to serve as a designated carrier.

Any member company may apply to become a designated carrier by submitting a written application to the Board of Governors. The Board may direct the applicant to provide information demonstrating eligibility under the requirements described above. Any applicant meeting these requirements shall be appointed as a designated carrier upon majority vote of the Board of Governors. All designated carriers shall enter into a contract with the Facility on such reasonable terms and conditions as may be established by the Board. Any designated carrier appointed by the Facility may, within a reasonable time after such appointment, request that the Facility notify existing designated agents of its appointment. Upon receipt of any such request, the Facility shall promptly send written notice of the designated carriers appointment to all existing designated agents.

The designated carrier shall cede to the Facility, using Facility rates, all eligible business submitted to it by the designated agent.

Each designated carrier shall be credited with uniform ceding and claims expense allowances for business written by designated agents even though the carrier's allowance for other business ceded to the Facility may be lower. These allowances shall be established by the Board of Governors. The designated carrier shall establish and enforce service standards in regard to premium billings, collections, submission of applications, etc. These standards shall be comparable to those applied to the designated carrier's voluntary agents.

3. Commissions

Commissions paid to designated agents by designated carriers shall not be less than the following:

- a. For long haul trucking applicants and public passenger carrying vehicles other than school buses, 5% of the policy premium.
- b. For other applicants, 10% of the policy premium.

M. Participation Ratios—Assessments—Recoupment

1. Participation ratios for Facility business are established separately for the following categories:
 - a. Private passenger non-fleet automobiles, and
 - b. All other.

For private passenger non-fleet automobiles ceded business, participation ratios for each company are determined as the average of (i) the ratio of the company's net direct written car years to the total such written car years for all companies and (ii) the ratio of the company's ceded net direct written car years to the total such ceded written car years for all companies.

For all other automobile ceded business, participation ratios for each company are determined as the average of (i) the ratio of the company's all other net direct written automobile liability premiums to the total such written premiums for all companies and (ii) the ratio of its ceded all other net direct written automobile liability premiums to the total such ceded written premiums for all companies.

2. The following definitions are used for establishing participation ratios:
 - a. The term "net direct" shall refer to direct writings, after deducting returns for cancellations, but without adding reinsurance assumed or deducting reinsurance ceded.
 - b. Private passenger non-fleet net direct written car years are the automobile bodily injury liability car years written by the company in the state for the calendar year ending December 31 of the specific policy year's experience being distributed.
 - (1). For 2006 and prior policy years: All such car years are included, regardless of the type of private passenger non-fleet automobile liability policy under which they were written, except those classified and coded as designated carrier business.

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- (2). For 2007 and subsequent policy years: All such car years are included, regardless of the type of personal automobile liability policy under which they were written, except those classified and coded as designated carrier business.
- c. All other net direct written automobile liability premiums are the automobile liability premiums included on page 15 of the company's annual statement; that were written by the company in the state for the calendar year ending December 31 of the specific policy year's experience being distributed. Such all other net direct written automobile liability premiums shall:
- (1) Include
- (a) Gross direct premiums, including policy and membership fees, minus return premiums and premiums of policies not taken;
- (b) Premiums for other than private passenger excess of loss policies, except for those companies that write no basic limits automobile liability insurance; and
- (2) Exclude
- (a) All private passenger non-fleet net direct written automobile premiums; and
- (b) Designated carrier business premiums.

The ratio(s) used for distribution will be based on the most current figures available as tentative participation ratios until the given calendar year figures are available. At that point in time, retroactive adjustment will be made to the earlier reports of distribution so that a given policy year distribution eventually will be made on the basis of writings in the corresponding calendar year.

For example, tentative participation ratios for 1988 and 1989 would be as follows:

Calendar Year Policy Year	
1987	1987
	1988
	1989

In this example, 1987 is a true figure, while 1988 and 1989 remain as tentative figures.

3. For purposes of establishing a basis for allocation of all Facility losses, expenses, and gains, each company licensed to write motor vehicle insurance or any component thereof shall report statistical information required by the General Rules to the North Carolina Reinsurance Facility, or permit its statistical agencies, designated by the company, to report the statistical information to the North Carolina Reinsurance Facility.
4. Facility operating expenses and miscellaneous income are assigned to the policy year corresponding to the calendar year in which they are incurred or earned. Total Facility miscellaneous expenses and income are allocated as to private passenger non-fleet and all other in the same proportions as the total of ceded written premiums and recoupment surcharges written for each class bear to the total of ceded written premiums and recoupment surcharges written for both classes. For purposes of this allocation between classes, the term "ceded written premiums" includes premiums on designated carrier business. After allocation between classes, the operating expenses and miscellaneous income for each class are apportioned among the companies as follows.
- For each year prior to 1980, each company's share of the private passenger operating expenses and miscellaneous income is based on the ratio of its private passenger liability net direct written premiums, excluding premiums on designated carrier business, to the total such net direct written premiums of all companies, excluding premiums on designated carrier business.
- For 1980 and each subsequent year, private passenger operating expenses and miscellaneous income are shared on the same basis as the underwriting accounts for that class as described in Subparagraph 1. above.
- All other operating expenses and miscellaneous income for all years are shared on the same basis as the underwriting accounts for that class as described in Subparagraph 1. above.
5. Groups of companies under the same ownership ~~and, or~~ and/or management may elect to be treated either separately or as a single company under these provisions.

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6. Assessments and recoupment surcharges are provided for in the Plan of Operation and are implemented as from time to time directed by the Board of Governors of the Facility.

N. Identification of Ceded Policies

Each insurer ceding business to the Facility must be able to identify business so ceded and be able to report premiums and losses as required in Section 4. Facility business written by members shall be subject to review and audit by the Audit Committee or the Compliance ~~c~~Committee, as appropriate, in a manner and time prescribed by the Board of Governors.

O. Service Standards

1. Each insurer shall provide the same type of service to ceded business that it provides for its voluntary market.
2. Records provided to agents and brokers shall include an indication that the business is ceded.
3. When an insurer cedes a policy or renewal thereof to the Facility and the Facility premium for such policy is higher than the premium that the insurer would normally charge for such policy if retained by the insurer, the policyholder shall be informed:
 - a. that his policy is ceded,
 - b. that the coverages are written at the Facility rate, which rate differential must be specified,
 - c. of the reason or reasons for the cession to the Facility,
 - d. that the specific reason or reasons for the cession to the Facility will be provided upon the written request of the policyholder to the insurer, and
 - e. that he may seek insurance through other insurers who may elect not to cede his policy.

If such policyholder obtains motor vehicle liability insurance through another insurer which elects not to cede his policy to the Facility and the policyholder cancels his ceded policy within 45 days of the effective date of such ceded policy, the earned premium for such ceded policy shall be calculated on the pro rata basis, except that the pro rata calculation shall not apply to a cancellation by any insurance premium finance company as

provided in Section 58-35-85, General Statutes of North Carolina.

4. Upon the written request of any eligible risk who has been notified pursuant to Subparagraph 3. above that his motor vehicle insurance policy has been ceded to the Facility, the insurer ceding the insurance policy must provide in writing to that eligible risk the specific reason or reasons for the decision to cede that policy to the Facility. Proof of mailing of the written reason or reasons is sufficient proof of compliance with this obligation.

Note: G.S. 58-37-25 provides: "With regard to any notice of cession or any written or oral communications specifying the reason or reasons for cession, there will be no liability on the part of, and no cause of action of any nature will arise against: (1) any insurer or its authorized representatives, agents, or employees, or (2) any licensed ~~agent, broker,~~ insurance producer or persons who furnish to the insurer information as to the reason or reasons for the cession, for any communications or statements made by them, unless the communications or statements are shown to have been made in bad faith with malice in fact."

P. Minimum Underwriting Requirements

1. **Standards**—Each member company is responsible to meet the following minimum underwriting standards for all business ceded to the Facility. Each member ceding risks is responsible to determine that all business ceded to the Facility is correctly classified and rated to develop the correct and proper premium. Classification and rating practices and procedures of each member company shall correspond with those followed for non-Facility business, subject to the following:
 - a. As to private passenger cars ceded to the Facility, member companies shall:
 - (1) Obtain the identification, date of birth, driver license number, and state of issue (including date of original licensing for persons licensed less than two years) of the applicant, of all operators resident in the applicant's household, and of any non-residents shown as regular operators.

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- (2) Determine the use and place of principal garaging of each vehicle to be insured.
 - (3) Obtain within 60 days of the cession effective date, for each initial cession, and at least annually thereafter, a current record of convictions for moving traffic violations for the applicant and each operator whose driving record would affect the sub-class for every vehicle subject to rating under the North Carolina Safe Driver Insurance Plan.
 - (4) Correctly classify and rate each vehicle in accordance with the approved North Carolina Personal Auto Manual.
 - (5) Correctly determine and charge any applicable recoupment surcharges.
 - b. As to other than private passenger cars ceded to the Facility, member companies shall develop sufficient identification, territory, use and other information correctly to classify and price, in accordance with the approved North Carolina Reinsurance Facility Commercial Automobile Manual, the insurance afforded.
- ❖—
- c. Member companies shall make all underwriting records of business ceded to the Facility available for audit by the Audit Committee or its designate. Member companies shall not:
 - (1) Cede any risk to the Facility except as provided by the rules outlined in Articles IX and X in the Plan of Operation.
 - (2) Refuse to insure any eligible risk for cedable coverages unless an exemption has been approved for that company by the Board of Governors.
2. **Application Requirements**—Each member company shall provide agents with motor vehicle insurance application forms to obtain from applicants sufficient information properly to classify and rate each exposure. This shall include at least the following:
- a. The name, address, date of birth, operator's license number, and state of issue for the applicant, each operator residing in the applicant's household, and any non-residents who are regular operators, as well as the original date of licensing for any operator licensed for less than two years.
 - b. Identification of each of the specified vehicles to be insured to include the year, the make and model, the body type and the vehicle identification number.
 - c. The use of each vehicle to be insured, as required by the approved classification plan, and the place of principal garaging.
 - d. A record of all accidents and convictions by the applicant and all operators as needed to establish the correct sub-class according to the North Carolina Safe Driver Insurance Plan.
 - e. The correct gross weight and information regarding the use, including the radius of operation, of any commercial automobile.
- ❖—
- f. Any other information necessary to develop the correct rating and premium for any type of risk eligible to be ceded.
 - g. **A Statement of Eligibility for Cession of Higher Limits Form NCRF-30 (see Exhibit F-1)** ~~w~~When coverage limits above 100/300/50 are to be ceded to the Facility pursuant to Subparagraph D.2 of this Section and the coverage limits are required by rule, law, or regulation other than the Vehicle Financial Responsibility Act of 1957 (Article 13 Chapter 20, General Statutes of North Carolina).-
~~T~~he insured must complete and sign a Form NCRF-30, and the signed form, or a copy thereof, must be retained in the ceding company's file. Absent a finding by the Facility of a lack of good faith by the ceding company, the ceding company shall be entitled to rely upon the insured's satisfactorily completed statement of eligibility for the cession of limits above 100/300/50. If, upon audit, the ceding company does not have a satisfactorily completed Form NCRF-30 in its file, the ceding company, in order to maintain cession of limits above 100/300/50 to the Facility or, in the event of a loss, in order to recover reimbursement from the Facility for losses in excess of 100/300/50, must prove, to the satisfaction of the Facility, that the higher limits were eligible to be

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ceded to the Facility as of the effective date of the initial cession of the insured's policy by the ceding company or as of the date notice of such cession was received by the Facility. A Form NCRF-30 is satisfactorily completed if the form is fully completed and the date the form was signed by the insured is prior to the later of (1) the date 45 days after the initial notice of cession of the insured's policy by the ceding company was received by the Facility or (2) the date of a loss.

The initial statement of eligibility by the insured shall remain in effect and may be relied upon by the ceding carrier for subsequent successive renewals of the policy until such time as the insured advises the ceding company that the insured is no longer required by the rules, laws, and regulations referenced in G.S. 58-37-35(b)(1)e. to maintain coverage limits in excess of 100/300/50 or until the ceding company becomes aware that the insured is no longer required by such rules, laws, or regulations to maintain coverage limits in excess of 100/300/50.

h. A Certification of Higher Coverage Limits Form NCRF-31 (see Exhibit G-1)

~~When~~ When liability coverage limits above 100/300/50 or medical payments limits above \$2,000 are to be ceded to the Facility pursuant to Subparagraph D.3 of this Section, ~~the~~ the insured must complete and sign a copy of Form NCRF-31 and the signed form, or a copy thereof, must be retained in the ceding company's file. Absent a finding by the Facility of a lack of good faith by the ceding company, the ceding company shall be entitled to rely upon the insured's satisfactorily completed certification for the cession of liability coverage limits above 100/300/50 and/or medical payments limits above \$2,000. If, upon audit, the ceding company does not have a satisfactorily completed Form NCRF-31 in its file, the ceding company, in order to maintain cession of such limits to the Facility or, in the event of a loss, in order to recover reimbursement from the Facility for losses in excess of 100/300/50 for the liability coverages and/or in excess of \$2,000 for medical payments, must prove, to the

satisfaction of the Facility, that the higher limits were eligible to be ceded to the Facility as of the effective date of the initial cession of the insured's policy by the ceding company or as of the date notice of such cession was received by the Facility. A Form NCRF-31 is satisfactorily completed if the form is fully completed and the date the form was signed by the insured is prior to the later of (1) the date 45 days after the initial notice of cession of the insured's policy by the ceding company was received by the Facility or (2) the date of loss.

The initial certification by the insured shall remain in effect and may be relied upon by the ceding carrier for subsequent successive renewals of the policy until such time as the insured advises the ceding company that the higher limits are no longer needed in order to obtain or continue coverage under personal excess liability or personal "umbrella" insurance policies or until the ceding company becomes aware that the higher limits are no longer needed in order to obtain or continue coverage under personal excess liability or personal "umbrella" insurance policies.

i. Rate Evasion, Fraud – Reliable Proof – Nonfleet Private Passenger Motor Vehicle Insurance ~~a~~As provided in G.S. 58-2-164(c1), for the purpose of obtaining nonfleet private passenger motor vehicle insurance and to the extent relevant to a particular criterion for eligible risk status, reliable proof of North Carolina residency or eligible risk status includes one or more of the following:

- (1) A utility bill in the name of the applicant showing the applicant's current North Carolina address; ~~including, but not limited to, a utility bill accessed electronically by the applicant.~~
- (2) A receipt for personal property taxes paid by the applicant within the preceding 12-month period and showing the applicant's current North Carolina address; ~~including, but not limited to, proof of personal property taxes paid accessed electronically by the applicant.~~

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- (3) A receipt for real property taxes paid by the applicant to a North Carolina locality within the preceding 12-month period and showing the applicant's North Carolina address; including, but not limited to proof of real property taxes paid accessed electronically by the applicant.
- (4) A valid unexpired North Carolina driver's license issued to the applicant and showing the applicant's current North Carolina address
- (5) A valid North Carolina vehicle registration issued to the applicant and showing the applicant's current North Carolina address;
- (6) A valid military ID;
- (7) A valid student ID of the applicant for a North Carolina school or university;
- (8) A Federal Income Tax Return filed by the applicant for the most recent prior filing period showing the applicant's name and current North Carolina address; or
- (9) A homeowners or renter's declarations page showing the applicant's current North Carolina address.

NOTE: For a risk to be an eligible risk for the purpose of nonfleet private passenger motor vehicle insurance, the requirements of G.S. 58-37-1(4a) must be satisfied.

- j. **Rate Evasion, Fraud – Reliable Proof – Other than Nonfleet Private Passenger Motor Vehicle Insurance** aAs provided in G.S. 58-2-164(c2), for the purpose of obtaining other than nonfleet private passenger motor vehicle insurance and to the extent relevant to a particular criterion for eligible risk status, reliable proof of North Carolina ~~R~~residency or eligible risk status, includes two or more of the following:

- (1) A utility bill in the name of the applicant showing a North Carolina address for the principal place of business of the applicant., including, but not limited to, a utility bill accessed electronically by the applicant.

- (2) A receipt for real property taxes paid by the applicant to a North Carolina locality within the preceding 12-month period and showing the applicant's current North Carolina address.
- (3) A valid North Carolina vehicle registration issued to the applicant and showing the applicant's current North Carolina address.
- (4) A federal income tax return filed by the applicant for the most recent prior

filing period showing the applicant's name and current North Carolina address.

- (5) A valid North Carolina driver's license of an owner of an applicant that is a corporation or an LLC, provided that the person holds at least twenty percent (20%) ownership interest in the applicant corporation or LLC.
- (6) If the principal place of business of a corporation or LLC is the primary residence of the sole owner, any of the documents identified in subdivisions (1) through (5) of this subsection, whether in the name of the corporation or LLC or in the name of the sole owner. For purposes of this subsection, "sole owner" shall mean an individual or a husband and wife.

For purposes of subdivisions (5) and (6) of this subsection, on policies to be ceded to the North Carolina Reinsurance Facility, proof of ownership is established through the execution by the owner of the corporation or LLC of **Certification of Ownership Form NCRF- 47** (see **Exhibit H-1 in the Standard Practice Manual**).

NOTE: For a risk to be an eligible risk for the purpose of motor vehicle insurance other than nonfleet private passenger motor vehicle insurance, the requirements of G.S. 58-37-1(4) must be satisfied. A completed Form NCRF-47 alone does not satisfy those requirements.

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The following definitions apply to the above:

“Applicant” means one or more persons applying for the issuance or renewal of an auto insurance policy on which the person or persons will be a named insured.

“Principal place of business” means the single physical location from which the majority of the essential operations of the applicant’s business are directed and controlled. The location of a consultant, service agent, or attorney of the applicant shall not be sufficient to establish an applicant’s principal place of business.

3. **Ceding at Renewal**— The Plan of Operation requires each risk to have an underwriting review and the Facility to be notified of cession prior to the effective date of each renewal if cession is to be effective on that date. This requirement applies to every renewal to be ceded whether or not the expiring policy was ceded.

THIS WILL INCLUDE, AS A MINIMUM, OBTAINING CURRENT RECORDS OF CONVICTIONS FOR MOVING TRAFFIC VIOLATIONS EVERY YEAR FOR ALL OPERATORS OF THE VEHICLES INSURED UNDER EACH CEDED POLICY SUBJECT TO RATING UNDER THE SAFE DRIVER INSURANCE PLAN.

4. **Agents' Responsibility**—It shall be the responsibility of each agent to obtain from the applicant answers to all relevant questions on the application for insurance and to obtain from the applicant any other information needed for correct premium determination.

LIMIT CODES FOR CESSION NOTICES

CODE	BODILY INJURY LIMIT OF LIABILITY	
	PER CLAIM	PER ACCIDENT
5	30,000	60,000
6	50,000	100,000
7	100,000	200,000
8	100,000	300,000
<u>D</u>	<u>250,000</u>	<u>500,000</u>

COMBINED SINGLE LIMIT POLICIES (CSL)

<u>E</u>	<u>750,000</u>
<u>F</u>	<u>1,000,000</u>
<u>G</u>	<u>1,500,000</u>
<u>H</u>	<u>5,000,000</u>
1	All other (including <u>CSL & split limit</u>)

CODE	MEDICAL PAYMENT LIMIT PER PERSON
1	500
2	750
3	1,000
4	2,000
7	All Other #
9	Policies without medical payments ①

**UNINSURED OR COMBINED
UNINSURED/ UNDERINSURED
MOTORISTS COVERAGE
UMPD LIMIT OF LIABILITY**

4	25,000*
5	50,000
1	All Other #
9	Policies with neither UM nor combined UM/UIM

CODE	PROPERTY DAMAGE LIMIT OF LIABILITY
	PER ACCIDENT
4	25,000*
5	50,000
<u>6</u>	<u>100,000</u>
<u>C</u>	<u>COMBINED SINGLE LIMIT</u>
1	All Other #

**UNINSURED MOTORISTS COVERAGE
B.I. LIMIT OF LIABILITY**

5	30,000*	60,000*
6	50,000	100,000
7	100,000	200,000
8	100,000	300,000
1	All Other #	
9	Policies without UM or with combined UM/UIM	

**COMBINED UNINSURED/
UNDERINSURED
MOTORISTS COVERAGES
B.I Limit of Liability**

6	50,000	100,000
7	100,000	200,000
8	100,000	300,000
<u>D</u>	<u>250,000</u>	<u>500,000</u>
<u>E</u>	<u>300,000</u>	<u>300,000</u>
<u>F</u>	<u>500,000</u>	<u>500,000</u>
<u>G</u>	<u>1,000,000</u>	<u>1,000,000</u>
1	All Other #	
9	Policies without combined UM/UIM	

Not to exceed maximum limit(s) which may be ceded as provided in Paragraph D. of this Section.

① Not available for motorcycles.

* These limits no longer meet the NC financial responsibility laws for new business or renewals as of 7-1-2025

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FIELD	#CHAR	POSITION	COMMENTS
			5- Higher limits for personal "umbrella" or excess liability
LIMITS CODE:			Insert a one position numerical <u>alphanumeric</u> code as follows:
BI	1	39	Valid Codes 1, 5-8, D-H
PD	1	40	Valid Codes 4, 5, 4-6 , 9, <u>C</u>
MED	1	41	Valid Codes 1-4, 7, 9
UM BI	1	42	Valid Codes 1, 5-9
UIM BI	1	43	Valid Codes 1, 6-9, D-G
UIM PD	1	44	Valid Codes 1, 4, 5, 9
TRANS CODE	1	45	Insert a one position numerical transaction as follows: 1- Binder or New Policy 2- Renewal Policy 3- Mid-Term Cession 4- Policy or Renewal Not Taken
POLICY NUMBER	16	46-61	Insert up to a 16 position Policy Number, left justified.
INSURED'S NAME	16	62-77	Insert up to a 16 position Insured's Name, left justified.

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SECTION 4

Chapter 8

Section 4. Accounting and Statistical Requirements

good order by the date due, the Manager immediately bill the company for an amount equal to the difference between (a) the average monthly total written premium for business ceded to the Facility as shown on the latest three monthly accounting reports submitted by the company and (b) the corresponding average monthly ceding and claims expense allowances. These charges will appear on the company's Monthly Account Activity Statement. The company shall within 20 days of the date of such billing remit to the Facility the amount shown on such billing.

Upon generation, in accordance with the Facility's normal processing procedures, of that member company's monthly Account Activity Statement which includes the entries reported in the company's late monthly accounting report, the Manager shall adjust the net balance due the Facility (or due the member company) by the amount of any such remittance less any late payment fees incurred in accordance with Paragraph E. of this Chapter.

C. Assessments

The Board of Governors may assess member companies to defray losses and expenses.

The formula (as defined in Chapter 12) used for distribution of participation will also be utilized for any necessary assessments of the participating members. Any such assessment from the participating members is due and payable to the Facility within 20 days of the date of the assessment notice.

D. Interim Settlement to Writing Company

A writing company which in any month reports allowable credits in excess of the premiums written shall be entitled to request reimbursement of such excess. The Facility Manager shall then review the writing company's receivable/payable balance and if the balance due the writing company at that point falls within the range of \$25,000 to \$200,000 the Facility Manager is authorized to approve payment. Such payments are to be made within 30 days of approval. Amounts in excess of \$200,000 shall be immediately referred to the Board of Governors for its approval.

E. Late Payment Fees

*All payments from member companies for assessments, and all amounts due on Account Activity Statements as described or referred to in this Chapter, all payments for late cession appeal penalties as described in Chapter 7, Paragraph G

and all payments of Penalties for Late Surcharge Detail Reports as described in Chapter 3, Paragraph J., and all payments of Penalties for Late Submission of Requested Data are due and payable within 20 days of the date of the billing. For any payment which has not been made by the due date, a late payment fee will be charged to the company. The criterion for determining overdue payments of billings will be the receipt date of the payment. All payments with receipt dates within 20 calendar days of the date of the billing will be considered to be on time. Member companies submitting payments with receipt dates subsequent to the twentieth day following the date of the billing will be charged a late payment fee of 1.5% per month on the unpaid balance. A minimum late payment fee of \$50.00 will apply with respect to any overdue payment under a specific billing. ❖

The procedure for follow-up of member companies with overdue payments will be:

1. A follow-up letter will be sent to the company on or about the twenty-seventh calendar day following the date of the billing relative to all payments which have not been received as of that date.
2. A second follow-up letter will be sent to the company on the fifteenth calendar day after the first follow-up letter. This letter is to be sent to the company contact as noted in the files. A copy of that letter is to be sent to the Chief Executive Officer of the company. If the outstanding billing is in excess of \$10,000, contact would be made with the Chief Financial Officer which is to be accomplished by telephone, and is to be confirmed by letter with a copy to the Chief Executive Officer. Copies of such letters are to be directed to the Chair of the Board of Governors.

Subsequent billings of a given type will include any unpaid amounts due under prior billings of that type and any unpaid late payment fees arising from billings of that type.

Section 4. Accounting and Statistical Requirements

SECTION 4

Chapter 10

FACILITY OFFICE PROCEDURE

A. Facility Accounting Books, Controls and Ledgers

1. Accounting Ledgers

Facility accounting books, controls and records shall be maintained in the Facility office. Normal ledgers for consolidation of the various writing company reports shall be established along the same lines as those routinely used by an insurance carrier. Retained accounting reports submitted by the writing companies and reports prepared from such accounting reports shall serve as the support for entries into the Facility books.

All books of original entry shall be made available only to personnel authorized by the Facility Manager. All such ledgers and journals shall be kept under the direct supervision of the Facility accountant.

The Facility shall produce special-purpose financial statements, approved for use by and within the authority of the Board of Governors. The special-purpose financial statements shall agree with the members' participation reports and may vary from financial statements prepared using accounting principals generally accepted in the United States (GAAP). The significant variances between the accounting practices of the Facility and GAAP include:

- a. Claims Expense and Ceding Expense Allowances shall be recorded as expenses as and when the corresponding written premiums are reported to the Facility. No amounts are deferred and amortized over the effective period of the related insurance policies.
- b. Surcharges Written – Clean Risk Recoupment (aka Clean Risk Subsidy) shall be recorded as income as and when reported to the Facility. No amounts are deferred and amortized over the effective period of the insurance policies.
- c. Surcharges Written – Loss Recoupments (aka Loss Recoupment/Allocation) shall be recorded directly to members' equity.
- d. Fixed asset purchases shall be recorded as expenses when purchased.
- e. Long term investments shall be reported

at amortized cost as of the reporting date. The Facility considers all long-term bond purchases to be deemed held-to-maturity and no unrealized gains and losses shall be reported in the special-purpose financial statements.

- f. Adjustments or correcting entries to member companies reported written premiums, losses paid or recoupments shall be recorded as reported to the Facility.
- g. Additional disclosures for short-duration insurance contracts are not intended to be and shall not be included with the financial statements.
- h. *Leases shall be expensed when incurred. No right-of-use lease asset or lease payment liability shall be recognized. ❖
- i. Additional disclosures Accounting and disclosures for credit losses on financial assets reported at amortized cost and available for sale debt securities, are not intended to be and shall not be included with the financial statements.

2. Chart of Accounts

The Facility office will maintain accounts as follows:

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Section 4. Accounting and Statistical Requirements

Financial Statement Line Number		<u>Account Number and Name</u>
	Income:	
IS-10	3001	Assessments
IS-9	3002	Membership Fees
IS-12	3004	Miscellaneous
IS-11	3005	Interest
IS-1	3006	Premiums Written
IS-13	3007	Late Premium Charges
IS-12	3008	Cession Key Entry Charges
IS-13	3009	Penalties for Uncorrected Questionable Transactions
IS-11	3010	Realized Gains and Losses on Investments
IS-13	3011	Late Payment Fees
IS-13	3012	Penalties for Late Surcharge Detail Report
★		❖
IS-5	3100	Surcharges Written - Clean Risk Recoupment
IS-18	3101-3120	Surcharges Written - Loss Recoupments
IS-5	3200-3299	Surcharges Written - Clean Risk Recoupment
IS-18	3300-3399	Surcharges Written - Loss Recoupments
	Assets:	
BS-1	4001	Bank - Checking Account
BS-1	4002	Savings Account
BS-3	4003	Investments
BS-8	4004	Assessments Receivable
BS-7	4005	Membership Fees Receivable
BS-10	4007	Travel Advance
BS-5	4008	Accounts Receivable
BS-4	4009	Accrued Interest Receivable
IS-14	4010	Salary Advance
BS-6	4011	Late Premium Charges Receivable
BS-6	4012	Allowance for Doubtful Charges
BS-2	4014	Savings Account - Insolvency
BS-6	4015	Late Payment Fees Receivable
BS-6	4016	Penalties for Uncorrected Questionable Transactions Receivable
BS-5	4017	Key Entry Charges Receivable
BS-2	4018-4024	Escrow Accounts
BS-5	4025	Interim Settlements
BS-6	4026	Penalties for Late Surcharge Detail Report Receivable
★		❖
BS-9	4100	Computer Equipment
BS-9	4101	Computer Equipment Accumulated Depreciation

STANDARD PRACTICE MANUAL
NORTH CAROLINA REINSURANCE FACILITY

Section 4. Accounting and Statistical Requirements

Financial Statement Line Number		<u>Account Number and Name</u>
	Liabilities:	
BS-17	5001	Employee Withholding FICA
BS-17	5002	Employee Withholding North Carolina Income Tax
BS-17	5003	Employee Withholding Federal Income Tax
BS-17	5004	Employee Withholding Group Insurance
BS-17	5005	Employee Withholding Savings Plan
BS-17	5006	Employer Savings Plan Contributions Payable
BS-16	5008	Accounts Payable
BS-17	5009	Loans Payable
BS-13	5011	Loss Reserves - Case
BS-14	5012	Loss Reserves - IBNR
BS-12	5013	Unearned Premium Reserves
BS-17	5018	Legal Fees Payable
BS-16	5019	Losses Not Reimbursed
BS-16	5020	Prepaid Accounts
BS-15	5099-5120	Deferred Revenue - Recoupment
BS-18)		
IS-19)	6001	Member Company Equity
BS-11	6002	Miscellaneous Receivable/Payable-- Rounding
	Expenses:	
IS-14	100	Salaries
	101	Regular
	102	Overtime
	103	Part Time
	104	Administration
IS-14	200	Payroll Taxes
	201	FICA
	202	State Unemployment
	203	Federal Unemployment
IS-14	300	Rent
	301	Space
	302	Alterations
IS-14	400	Travel
	401	Audit Staff
	402	Special
	403	Claim Staff
IS-14	500	Data Processing
	501	Machine Rental
	502	Depreciation - Computer
IS-14	600	Postage
	601	Meter
	602	Stamps
	603	Postage Due
	604	Box Rent
IS-14	700	Printing and Office Supplies
	701	Office Supplies
	702	Mimeograph

STANDARD PRACTICE MANUAL
NORTH CAROLINA REINSURANCE FACILITY

Section 4. Accounting and Statistical Requirements

Expenses:		
	703	Dictaphone
	704	Photocopy
	705	Printing
	706	Punch Cards
	707	Manuals and Forms
IS-14	800	Furniture and Equipment
	801	New Purchases
	802	Postage Meter
	803	Service Contracts
	804	Repairs
	805	Lettering
	806	Rental
IS-14	900	Telephones and Telegraphs
	901	Telephone Equipment
	902	Tolls
	903	Telegrams
IS-14	1000	Employee Relations
	1001	Group Insurance
	1002	Employee Education
	1003	Credit Reports
	1004	Medical Examinations
	1005	Retirement Plan
	1006	Supper Money
	1007	Employee Savings Plan
IS-14	1100	Express & Freight
	1101	Regular
IS-14	1200	Luncheons
	1201	Special
	1202	Board of Governors
	1203	Subcommittees
IS-14	1300	Legal Expense
	1301	Retainer
	1302	Legal Fees
	1304	Hearing Transcripts
IS-14	1400	Subscriptions
	1401	Subscriptions
IS-14	1500	Advertising
	1501	Telephone Directory
	1502	Legal Notices
	1503	Other Advertising
IS-14	1600	Insurance
	1601	Fidelity
	1602	Multi-Peril
	1603	Compensation
	1604	Automobile
	1605	Bonds
	1606	Umbrella
IS-14	1700	Outside Services
	1701	Audit
	1702	Payroll
	1703	Manpower
	1704	Data Processing
	1705	Mail Delivery
	1706	Public Relations
	1707	Advisory Services

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NORTH CAROLINA REINSURANCE FACILITY

Section 4. Accounting and Statistical Requirements

Expenses:		
	1708	Investment Expense
IS-14	1800	Taxes
	1801	Personal Property
	1802	Intangibles
	1803	Sales & Use
IS-14	1900	Interest Expense
	1901	Interest
	2000	Other Expenses
IS-6	2001	Losses Paid
IS-7	2002	Claims Expense Allowance
IS-8	2003	Ceding Expense Allowance
IS-14	2004	Rounding
IS-14	2005	Company Reimbursement - Designated Agent in Default

3. Example Entries--Some of the information included on the Monthly Summary Reports (Exhibit B) from the writing companies does not require ledger posting. The following provides examples of entries to be made from such reports:

a. Premiums Written

Debit: Accounts Receivable/Payable Writing Company	\$XXX,XXX.XX	
Credit: Premiums Written		\$XXX,XXX.XX

b. Losses Paid

Debit: Losses Paid	\$XXX,XXX.XX	
Credit: Accounts Receivable/Payable Writing Company		\$XXX,XXX.XX

c. Ceding Expense Allowance

Debit: Ceding Expense Allowance	\$XXX,XXX.XX	
Credit: Accounts Receivable/Payable Writing Company		\$XXX,XXX.XX

d. Claims Expense Allowance

Debit: Claims Expense Allowance	\$XXX,XXX.XX	
Credit: Accounts Receivable/Payable Writing Company		\$XXX,XXX.XX

EFFECTIVE DATES

Section 1—Article 37, Chapter 58, General Statutes of North Carolina (the NCRF Law)

1	January 1, 2016
35	July 1, 2016
38	October 19, 2016
40	May 24, 1999
50	August 23, 2007
75	May 2, 1999

Section 2—Plan of Operation

II	January 1, 2008
II	August 10, 2011
III	October 20, 1999
IV	October 15, 2015
V	January 1, 2006
IX	January 1, 2002
XI	May 5, 2006
XII	January 1, 2006
XIII	January 1, 2006
XV	October 19, 2016

Section 3—General Rules

Part D	November 26, 2010
Part E	October 16, 2014
Part F	November 26, 2010
Part G	October 19, 2016
Part H	November 26, 2010
Part I	September 17, 2003
Part L	October 24, 2007
Part I	September 17, 2003
Part N	November 26, 2010
Part O	October 24, 2007
Part P	April 1, 2020
Exhibit A	November 26, 2010
Exhibit B	October 16, 2014
Exhibit C	November 26, 2010
Exhibit D	November 26, 2010
Exhibit E	November 26, 2010
Exhibit F	November 26, 2010
Exhibit G	June 26, 2002
Exhibit H	June 28, 2018

Section 4—Accounting and Statistical Requirements

Chapter 1	November 26, 2010
Chapter 2	November 26, 2010
Chapter 3	October 1, 2020
Chapter 4	March 6, 2023
Chapter 5	November 26, 2010
Chapter 6	November 26, 2010
Chapter 7	August 10, 2011
Chapter 8	March 6, 2023
Chapter 9	June 26, 2002
Chapter 10	March 6, 2023
Chapter 12	November 26, 2010
Chapter 13	February 21, 2018
Exhibit A	June 5, 2013
Exhibit B	July 25, 2018
Exhibit C	October 16, 2014