

August 6, 2018

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Standard Practice Manual Revisions

At a meeting held on July 25, 2018 the Board of Governors approved the following revisions to the North Carolina Reinsurance Facility Standard Practice Manual. These changes are effective immediately.

1. Section 3. General Rules, Rate Evasion, Fraud (GS 58-2-164) Pages 3-14 thru 3-16. Revisions include formatting and clarification changes with additional wording inserted from HB 382. This follows Circular Letter RF-18-8 distributed on June 29, 2018 regarding HB 382 and the new Form NCRF-47.
2. Section 4. Accounting and Statistical Requirements Page Exhibit B-3 Transaction Code – revised wording, clarification.

For your reference, attached are copies of the manual pages being revised.

All changes noted above will be updated in the online Standard Practice Manual, as soon as possible.

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

Any questions regarding these manual changes should be directed to Tom Burns at (919) 719-3033 or email tfb@NCRB.org.

Sincerely,

Terry F. Collins

Chief Operating Officer

North Carolina Reinsurance Facility

TFC: lad

Attachments

RF-18-11

Section 3. General Rules

data is received complete and in good order. The Facility initially shall bill the company for the penalty upon receiving the requested data complete and in good order, or within 30 days from the due date of the report, and periodically thereafter as appropriate. Each penalty billing will appear on the member company's Monthly Account Activity Statement and is due and payable in accordance with that statement's due date and is subject to Late Payment Fees in accordance with Section 4, Chapter 8, Paragraph E of this Manual.

- 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. With respect to risks eligible for experience rating:
 - (1) The names of the prior carriers for the past four years;
 - (2) The earned premiums for the past four years; and
 - (3) Current valued loss runs for the past four years.
- g. Any other information necessary to develop the correct rating and premium for any type of risk eligible to be ceded.
- h. **A Statement of Eligibility for Cession of Higher Limits Form NCRF-30 (see Exhibit F-1)** 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). The 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 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.

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

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;
- (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;
- (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;
- (4) A valid 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

STANDARD PRACTICE MANUAL
NORTH CAROLINA REINSURANCE FACILITY

Section 3. General Rules

- 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.

Rate Evasion, Fraud (GS 58-2-164)

k. Rate Evasion, Fraud – Reliable Proof – Other than Nonfleet Private Passenger Motor Vehicle Insurance

As 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 and for the purpose of obtaining other than nonfleet private passenger motor vehicle insurance, reliable proof of North Carolina 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.
- (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 (20%) percent 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.

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.

New material is underlined

Deleted material is struck through

STANDARD PRACTICE MANUAL
NORTH CAROLINA REINSURANCE FACILITY

Section 4. Accounting and Statistical Requirements

NCRF ACCOUNTING TRANSACTION DETAIL RECORD

FIELD	# CHAR	POSITION	COMMENTS
TRANSACTION CODE	1	81	<u>011</u> ACCOUNTS 010 & 011 ONLY Insert a one-position numerical transaction code as follows: 1–Policy new and renewal 2–Endorsements 3–Cancellations 4–Reinstatements 5–All Other
			<u>ACCOUNT 010</u> NOTE: The only valid transaction <u>2 Endorsements</u> code for Account 010 is transaction code 2.
POLICY NUMBER	16	83–98	Insert up to a 16-position policy number, left justified.
CLAIM NUMBER	16	101–116	Insert up to a 16-position claim number, left justified.

*See Section 4, Chapter 3 for definition