

NORTH CAROLINA REINSURANCE FACILITY

POST OFFICE BOX 176010
RALEIGH, NORTH CAROLINA 27619-6010

JOHN W. WATKINS
General Manager

5401 SIX FORKS ROAD
RALEIGH, NORTH CAROLINA 27609-4435

TELEPHONE (919) 783-9790
FACSIMILE (919) 783-0355

ROBERT M. GREER
Audit Manager

F. TIMOTHY LUCAS
Automobile Manager

ROBERT M. NEWTON
Claims Manager

DAVID E. SINK, JR.
Accounting Manager

April 5, 2000

CIRCULAR LETTER TO ALL MEMBER COMPANIES

**IMPORTANT MATERIAL
NEEDS PROMPT
ATTENTION**

Re: Refund of Portion of Escrowed Premiums - 1994 Rate Filing Case

By Circular Letter to All Member Companies A-00-3 dated March 15, 2000, the North Carolina Rate Bureau announced that the Rate Bureau and the Commissioner of Insurance had agreed to settle the outstanding 1994, 1996 and 1999 private passenger auto insurance rate filing cases. The 1994 and 1996 cases were involved in litigation and in each case member companies had been advised by the Rate Bureau to establish escrow accounts in connection with their voluntary business because the Rate Bureau instructed member companies to implement rates higher than those approved by the Commissioner of Insurance.

As to "clean risk" business ceded to the North Carolina Reinsurance Facility, which is required to be rated on the basis of Rate Bureau voluntary rates, member companies were advised that the Reinsurance Facility would maintain the required escrow accounts.

1996 Filing

Under the terms of the Settlement Agreement and Consent Order, the rates implemented by the Rate Bureau with respect to the 1996 rate filing case are approved, and no refunds are required on policies to which the 1996 rate filing case applied. The 1996 rate filing case governed the rates applicable to all new policies covering private passenger automobiles effective beginning December 1, 1996 through April 30, 1997 and to all renewal policies effective beginning January 15, 1997 through April 30, 1997.

1994 Filing

The 1994 rate filing case governed the rates applicable to all new policies covering private passenger automobiles effective beginning January 1, 1995 through November 30, 1996 and to all renewal policies effective beginning

February 15, 1995 through January 14, 1997. With respect to policies to which the 1994 rate filing case applied, the terms of the settlement provide that member companies are required to refund to policyholders that portion of the premium collected on each policy which exceeds the premium which would have resulted on each policy using the rates approved in the settlement agreement, along with interest.

It will be necessary for ceding carriers to make arrangements to distribute appropriate refunds to "clean risk" policyholders. However, as noted above, the Reinsurance Facility has maintained the required escrow account for the "clean risk" business ceded to the Reinsurance Facility, and the difference between the premium ceded to the Facility and the premium that would have been charged using the approved rates on "clean risk" business ceded to the Reinsurance Facility in connection with the 1994 rate filing case will be reimbursed by the Reinsurance Facility to the ceding companies. In addition, the Reinsurance Facility will reimburse to the ceding companies any interest paid by the ceding companies on premium refunded on such business. Please note there are no refunds applicable to "other than clean risk" business ceded to the Reinsurance Facility.

Your attention is directed to the enclosed memorandum entitled Procedures on Refund of Premium. These procedures were approved by the Governing Committee of the Rate Bureau and ordered by the Commissioner of Insurance for use in processing refunds of premium and payment of interest in connection with the 1994 rate filing case. Also enclosed is a memorandum entitled Instructions for Reporting Refund Premium and Interest which provides ceding companies with the detail required for reporting to the Reinsurance Facility all transactions associated with this refund. Transactions may be reported effective with August 2000 accounting month submissions due at AIPSO by October 15, 2000. Please do not submit transactions earlier than your August 2000 accounting month submission.

With respect to discussions that occurred in connection with this settlement, member companies are advised as to the following important points:

1. The automobile insurance statistical agents for North Carolina (Insurance Services Office (ISO), National Association of Independent Insurers (NAII) and National Independent Statistical Service (NISS)) will be made aware of this settlement and any special instructions which might be needed with respect to the reporting of statistical data will be issued directly to the companies from ISO, NAII and NISS.

2. Neither the premiums refunded, interest paid nor the expenses incurred in connection with issuing the refunds are to be included as expenses in responses to the Annual Call for Automobile Expense Experience issued by the Rate Bureau. However, separate entries will be included on the Annual Call for Automobile Expense Experience to report the amount of premium refunded, interest paid and the expenses incurred in issuing refunds. Accordingly, companies should take appropriate steps to be able to separately identify these items.

3. The Bureau is advised that the Insurance Department's auditors may test the appropriateness of refund calculations during the course of any market conduct examination conducted in the company's office. The Department's instructions regarding the accounting treatment to be afforded escrow funds, refunded premium and related interest expense have been forwarded by the Rate Bureau to all member companies. For information regarding the instructions, refer to the

Rate Bureau's Circular Letter to All Member Companies A-00-4 dated March 15, 2000.

4. The Reinsurance Facility will be refunding "gross" premiums to member carriers - under the reporting procedures adopted by the Board of Governors, premiums will not be adjusted to reflect refunds of ceding and claims expense allowances.

5. There will be no retrospective or prospective adjustments in expense allowances to recognize the reduction in premiums written caused by the refunds of escrowed premiums.

Please see to it that this circular letter is brought to the attention of all interested personnel in your Company. Any questions regarding the settlement should be directed to Facility Staff. Please contact David Amaral, AIPSO at (401) 946-2310 if you have any questions concerning the reporting of detailed transactions.

Very truly yours,

John W. Watkins

General Manager

JWW:lm

RF-00-5