



August 6, 2014

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Revisions to the Commercial Automobile Manual

The Commissioner of Insurance has approved revisions to the N. C. Reinsurance Commercial Automobile Manual. These revisions make changes to the Experience Rating Plan section.

In that regard, please find attached the revisions to the Experience Rating Plan. Please replace the like pages in the manual with the attached pages.

These changes become effective in accordance with the following Rule of Application:

These changes are applicable to all new and renewal policies effective on or after March 1, 2015.

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

Very truly yours,

F. Timothy Lucas

Automobile Manager

FTL:dms

RF-14-4

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EXPERIENCE RATING PLAN SECTION

Rule 81. ELIGIBILITY

Every risk which is eligible shall be experience rated under the rules of this Plan. The term "risk" as used in this Plan means the exposures of any one insured which are to be rated. Allied or subsidiary interests shall not be included unless the insured holds a majority financial interest therein.

(See Supplementary Provisions in this Section applicable to the How to Classify Autos Rule (Rule 11) regarding combination of entities.)

Any risk meeting the following qualifications for the bodily injury and property damage liability exposures to be rated shall be eligible for the application of this Plan:

- A. Five or more private passenger or commercial autos (excluding trailers and semitrailers) or three or more public autos, or the equivalent of such exposure for autos hired by the risk, or

Exception:

Five or more four-wheel private passenger autos owned by an individual or owned jointly by two or more individuals resident in the same household which are not used for business use, other than farming or ranching, and which are covered under a Personal Auto Policy shall not be eligible under this paragraph A.

- B. An estimated basic limits annual Manual premium of at least \$5,2006,500 for three or more autos of any type (excluding trailers and semitrailers), or the equivalent of such exposure for autos hired by the risk, or
- C. An estimated basic limits annual Manual premium of at least \$5,2006,500 if a garage.

Exception:

If there is no owned or hired auto exposure or if the owned and hired auto exposure is not sufficient to qualify for the application of this Plan, any risk which develops a basic limits annual Manual premium of \$5,2006,500 or more for bodily injury and property damage employers non-ownership liability exposures shall be eligible for the application of this Plan. The headquarters location of the risk shall govern the application of this Plan for all employers non-ownership liability exposures regardless of location.

Rule 82. RATING PROCEDURE

The experience modification for the risk shall be determined in accordance with the experience rating procedure described herein.

If the owned and hired autos of a risk are subject to a modification developed in accordance with this Plan, such modification must also be applied to the employers non-ownership liability exposures provided the premiums and losses for such exposures are included in the development of the modification.

Rule 83. EXPERIENCE USED

The experience modification shall be determined from the latest available three years' experience incurred by the company establishing the rating in this State, or in all states, for the forms of auto liability insurance to be rated. In the event the experience for the full experience period is not available, at least one completed policy year shall be used. The experience period shall end at least six months prior to the rating date.

Experience incurred by companies other than the company establishing the rating must be used subject to the periods specified above. In the event that such experience cannot be obtained by the current carrier,

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it shall be obtained by the North Carolina Reinsurance Facility upon notification by the carrier. No self-insured experience shall be used in determination of the experience modification.

Rule 84. DETERMINATION OF EXPERIENCE MODIFICATION

The term "basic limits" shall mean the following limits of liability:

\$30,000/60,000 bodily injury limits and a \$25,000 property damage limit

"Basic limits" shall also mean the policy limits for those policies that were written during the experience period at limits less than those mentioned above.

A. Basic Limits Premium Subject to Experience Rating

The basic limits premium shall be the collected premium for the experience period for bodily injury liability and property damage liability coverages only (excluding premiums for medical payments, uninsured motorists, and underinsured motorists coverages) converted to a basic limits basis and adjusted to eliminate the effect of any experience or other rate modification applied.

B. Basic Limits Losses Subject to Experience Rating

The losses to be included in the rating shall be the total of the following:

1. Paid and outstanding losses (including allocated claim expense) for each year in the experience period, with the indemnity amount limited to basic limits, and with the amount of indemnity and allocated claim

expense resulting from any single occurrence limited by the maximum single loss value (MSL) specified in TABLE B based on the basic limits premium subject to experience rating.

2. Adjustment to reflect ultimate level of losses for each year in the experience period, calculated by multiplying the premium (P) for that year by the adjusted expected loss ratio (AELR) and by the appropriate basic limits loss development factor (LDF), where

- a. P is the adjusted basic limits premium for the particular type of coverage for each year in the experience period;
- b. AELR is the adjusted expected loss ratio specified in TABLE B based on the total basic limits premium subject to experience rating;
- c. LDF is the appropriate basic limits loss development factor applicable to expected losses (Premium x AELR). TABLE A displays LDFs by type of coverage and maturity* (see Example as follows).

*See Supplement, in this Section, regarding use of immature losses due to change of carrier.

Medical payments, uninsured motorists, and underinsured motorists losses shall be excluded.

C. Actual Loss Ratio

Determine the actual loss ratio by dividing the basic limits losses subject to experience rating by the basic limits premium subject to experience rating. This calculation shall be carried to three decimal places.

D. Credibility

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The credibility for the risk is obtained from TABLE B, based on the total basic limits premium subject to experience rating.

The experience modification shall be rounded to two decimal places.

E. Experience Modification

1. If the actual loss ratio is less than the adjusted expected loss ratio, the experience modification is a credit which shall be determined as follows:

$$\left(\frac{\text{Adjusted Expected Loss Ratio} - \text{Actual Loss Ratio}}{\text{Adjusted Expected Loss Ratio}} \right) \times \text{Credibility} = \text{Experience Modification}$$

2. If the actual loss ratio is greater than the adjusted expected loss ratio, the experience modification is a debit which shall be determined as follows:

$$\left(\frac{\text{Actual Loss Ratio} - \text{Adjusted Expected Loss Ratio}}{\text{Adjusted Expected Loss Ratio}} \right) \times \text{Credibility} = \text{Experience Modification}$$

This calculation shall be carried to three decimal places.

Rule 85. TENTATIVE EXPERIENCE MODIFICATION

If complete experience rating data are not available at the time of policy issuance, a tentative experience modification of 1.50 shall be applied in rating the policy.

Exception: In cases where the experience modification applicable to the preceding term of the policy is higher than 1.50, such higher experience modification must be applied as the tentative experience modification for the current term.

Whenever a tentative experience modification has been applied, endorse the policy (1) noting application of the tentative experience modification, and (2) to provide for subsequent application of any experience modification determined in accordance with this Plan.

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Example: Calculation of Modification to be effective on January 1, 2015.

Suppose that we have an insured with auto liability BI and PD exposures whose adjusted basic limits premium and paid and outstanding losses for the experience period are as follows:

YEAR	ADJUSTED BASIC LIMITS PREMIUM		LOSSES (INCLUDING ALLOCATED CLAIM EXPENSE)*	
	BI	PD	BI	PD
1/1/11-12/31/11	\$5,000	\$2,000	\$1,800	\$700
1/1/12-12/31/12	5,000	3,500	2,000	200
1/1/13-12/31/13	7,000	3,000	600	300
TOTAL =	\$25,500		*basic limits incurred losses limited by MSL and evaluated as of 9/30/14.	

The total basic limits premium subject to experience rating is \$25,500 so the appropriate adjusted expected loss ratio from Table B is .473 and the appropriate maximum single loss is \$16,450 (for this example, we assume that the insured is an "All Other" risk - not Publics or Zone Rated).

The appropriate loss development factors from TABLE A are:

For Policy Effective:	BI	PD
1/1/11 (45 months)	.011	.000
1/1/12 (33 months)	.028	.002
1/1/13 (21 months)	.075	.011

Thus the basic limits losses for each year are as follows:

BASIC LIMIT LOSSES =	(PREMIUM times AELR times LDF) plus	PAID AND OUTSTANDING LOSSES
(2011 BI) =	\$(5,000) X (.473) X (.011) +	\$1,800=
(2011 PD) =	(2,000) X (.473) X (.000) +	700=
(2012 BI) =	(5,000) X (.473) X (.028) +	2,000=
(2012 PD) =	(3,500) X (.473) X (.002) +	200=
(2013 BI) =	(7,000) X (.473) X (.075) +	600=
(2013 PD) =	(3,000) X (.473) X (.011) +	300=
TOTAL		\$5,959

The actual loss ratio used in the experience modification formula is \$5,959 ÷ 25,500 or .234.

The credibility factor from TABLE B is .21.

Therefore the unadjusted experience modification is:

$$EM = \frac{(.473 - .234)}{.473} \times .21 = .106$$

And the experience modification is: 1 - .106 = .894

**TABLE A
BASIC LIMITS LOSS DEVELOPMENT FACTORS**

	Latest Policy Year	Prior Policy Year	Next Prior Policy Year
	(18 Months)	(30 Months)	(42 Months)
Auto Liability—BI; 30/60	.099	.032	.016
Auto Liability—PD	.016	.003	.000
	(21 Months)	(33 Months)	(45 Months)
Auto Liability—BI; 30/60	.075	.028	.011
Auto Liability—PD	.011	.002	.000
	(24 Months)	(36 Months)	(48 Months)
Auto Liability—BI; 30/60	.054	.024	.007
Auto Liability—PD	.007	.001	.000
	(27 Months)	(39 Months)	(51 Months)
Auto Liability—BI; 30/60	.037	.021	.003
Auto Liability—PD	.004	.000	.000

Note: These factors are to be applied to the product of the AELR and the premium for the particular coverage and year in order to determine the adjustment to reflect the ultimate level of losses.

If breakdown of the premium by coverage is not available, an average LDF shall be obtained by combining the applicable factors by coverage, taking into consideration the amount of the risk's total exposures or losses in each category as of the last survey or evaluation.

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TABLE B

AUTOMOBILE LIABILITY EXPERIENCE RATING
CREDIBILITY AND MAXIMUM SINGLE LOSS TABLE

Premium	Credibility	Adjusted Expected Loss Ratio		Maximum Single Loss	
		Publics & Zone Rated	All Others	Publics & Zone Rated	All Others
\$ 475- 1439	0.01	0.285	0.252	4050	3600
1440- 2423	0.02	0.391	0.344	8450	7450
2424- 3427	0.03	0.423	0.374	10250	9050
3428- 4452	0.04	0.441	0.389	11350	10000
4453- 5500	0.05	0.452	0.400	12100	10700
5501- 6569	0.06	0.461	0.409	12700	11250
6570- 7662	0.07	0.468	0.415	13150	11700
7663- 8778	0.08	0.474	0.421	13600	12100
8779- 9919	0.09	0.480	0.425	14050	12450
9920-11086	0.10	0.484	0.430	14400	12800
11087-12279	0.11	0.489	0.435	14800	13150
12280-13500	0.12	0.494	0.439	15150	13450
13501-14748	0.13	0.498	0.443	15500	13800
14749-16026	0.14	0.502	0.447	15850	14100
16027-17334	0.15	0.507	0.451	16250	14450
17335-18673	0.16	0.510	0.454	16600	14750
18674-20045	0.17	0.514	0.458	16950	15100
20046-21450	0.18	0.518	0.462	17300	15450
21451-22891	0.19	0.522	0.466	17700	15800
22892-24367	0.20	0.526	0.469	18050	16100
24368-25882	0.21	0.530	0.473	18450	16450
25883-27435	0.22	0.534	0.477	18850	16850
27436-29029	0.23	0.538	0.481	19250	17200
29030-30665	0.24	0.541	0.484	19650	17550
30666-32345	0.25	0.545	0.488	20050	17950
32346-34071	0.26	0.549	0.492	20500	18350
34072-35844	0.27	0.552	0.495	20900	18750
35845-37667	0.28	0.556	0.499	21350	19150
37668-39542	0.29	0.560	0.503	21800	19600
39543-41471	0.30	0.564	0.507	22300	20050
41472-43456	0.31	0.568	0.510	22800	20450
43457-45500	0.32	0.571	0.514	23250	20950
45501-47605	0.33	0.575	0.517	23800	21400
47606-49774	0.34	0.579	0.521	24300	21900
49775-52011	0.35	0.582	0.525	24850	22400
52012-54318	0.36	0.586	0.528	25400	22900
54319-56700	0.37	0.589	0.532	25950	23450
56701-59158	0.38	0.593	0.536	26550	24000
59159-61698	0.39	0.597	0.539	27150	24550
61699-64323	0.40	0.600	0.543	27800	25150
64324-67038	0.41	0.604	0.547	28400	25750
67039-69847	0.42	0.607	0.550	29100	26350
69848-72756	0.43	0.611	0.554	29750	27000
72757-75770	0.44	0.614	0.557	30450	27650
75771-78894	0.45	0.618	0.561	31200	28350
78895-82135	0.46	0.621	0.564	31950	29050
82136-85500	0.47	0.624	0.568	32700	29750
85501-88995	0.48	0.628	0.571	33550	30500
88996-92628	0.49	0.631	0.575	34350	31300
92629-96409	0.50	0.634	0.578	35250	32100

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TABLE B

AUTOMOBILE LIABILITY EXPERIENCE RATING
CREDIBILITY AND MAXIMUM SINGLE LOSS TABLE

Premium	Credibility	Adjusted Expected Loss Ratio		Maximum Single Loss	
		Publics & Zone Rated	All Others	Publics & Zone Rated	All Others
\$ 96410 – 100345	0.51	0.637	0.581	36100	32950
100346 – 104447	0.52	0.640	0.585	37050	33850
104448 – 108725	0.53	0.643	0.588	38000	34750
108726 – 113192	0.54	0.646	0.591	39000	35700
113193 – 117859	0.55	0.649	0.594	40050	36650
117860 – 122741	0.56	0.652	0.597	41150	37700
122742 – 127852	0.57	0.655	0.600	42300	38750
127853 – 133210	0.58	0.657	0.603	43500	39850
133211 – 138833	0.59	0.660	0.606	44700	41050
138834 – 144740	0.60	0.663	0.609	46000	42250
144741 – 150954	0.61	0.665	0.611	47350	43500
150955 – 157500	0.62	0.668	0.614	48800	44850
157501 – 164404	0.63	0.670	0.617	50250	46250
164405 – 171697	0.64	0.673	0.619	51850	47700
171698 – 179413	0.65	0.675	0.622	53500	49250
179414 – 187589	0.66	0.677	0.624	55200	50900
187590 – 196269	0.67	0.679	0.626	57050	52600
196270 – 205500	0.68	0.681	0.629	59000	54400
205501 – 215336	0.69	0.683	0.631	61050	56350
215337 – 225838	0.70	0.685	0.633	63250	58400
225839 – 237078	0.71	0.687	0.635	65550	60600
237079 – 249136	0.72	0.689	0.637	68050	62900
249137 – 262103	0.73	0.691	0.639	70700	65400
262104 – 276088	0.74	0.692	0.640	73550	68050
276089 – 291214	0.75	0.694	0.642	76600	70900
291215 – 307627	0.76	0.695	0.644	79950	74000
307628 – 325500	0.77	0.697	0.645	83500	77350
325501 – 345034	0.78	0.698	0.647	87400	81000
345035 – 366475	0.79	0.699	0.648	91650	84950
366476 – 390115	0.80	0.701	0.650	96250	89250
390116 – 416310	0.81	0.702	0.651	101400	94050
416311 – 445500	0.82	0.703	0.652	107050	99300
445501 – 478227	0.83	0.704	0.653	113300	105150
478228 – 515177	0.84	0.705	0.654	120350	111700
515178 – 557224	0.85	0.706	0.655	128300	119100
557225 – 605500	0.86	0.706	0.656	137300	127500
605501 – 661500	0.87	0.707	0.657	147600	137100
661501 – 727239	0.88	0.708	0.657	159600	148250
727240 – 805500	0.89	0.708	0.658	173600	161300
805501 – 900236	0.90	0.709	0.659	190300	176800
900237 – 1017264	0.91	0.709	0.659	210500	195600
1017265 – 1165500	0.92	0.710	0.659	235400	218750
1165501 – 1359346	0.93	0.710	0.660	266950	248100
1359347 – 1623681	0.94	0.710	0.660	308150	286400
1623682 – 2005500	0.95	0.710	0.660	364300	338650
2005501 – 2605500	0.96	0.711	0.661	445400	414050
2605501 – 3685500	0.97	0.711	0.661	572800	532500
3685501 – 6205500	0.98	0.711	0.661	802050	745650
6205501 – 18805500	0.99	0.711	0.661	1336950	1242950
18805501 and over	1.00	0.711	0.661	4011200	3729100

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SUPPLEMENT TO THE LIABILITY EXPERIENCE RATING PLAN

Rule 86. TREATMENT OF IMMATURE LOSSES DUE TO CHANGE OF CARRIER

In cases where an insured changes or has changed carriers, the company establishing the rating may be unable to obtain current valuations of past losses from previous carriers. If this happens, the maturity of the experience obtained from previous carriers must be carefully examined and the appropriate loss development factors selected. The maturity of the losses for any year in the experience period is defined as the number of months between the date of the latest loss valuation and the effective date of the policy to which these losses are assignable. A given year's losses cannot mature unless the losses are revalued. The loss development factors applicable at the time of the most recent valuation must be used in subsequent ratings as long as updated valuations are not available. A specific instance of this can be seen when the experience provided by previous carriers contains fragmented periods, such as nine (or six) months of losses which were segments of policy years valued as of nine (or six) months after the policy effective date and for which subsequent valuations were unable to be obtained. If it is necessary to include this experience in subsequent ratings, factors must be applied which project nine (or six) months of losses to a complete policy year ultimate paid basis. 6, 9, 12, and 15 month basic limits loss development factors are included in this supplement.

The existence of these supplementary loss development factors does not alter the requirements set forth in the Experience Used Rule (Rule 83) of the Experience Rating Plan.

BASIC LIMITS LOSS DEVELOPMENT FACTORS		
	Six Month Maturity	Nine Month Maturity
Auto Liability—BI; 30/60	.619	.399
Auto Liability—PD	.522	.277
	12 Month Maturity	15 Month Maturity
Auto Liability—BI; 30/60	.171	.130
Auto Liability—PD	.030	.022

Note: These factors are to be applied to the product of the AELR and the premium for the particular coverage and year in order to determine the adjustment to reflect ultimate level of losses.

If breakdown of the premium by coverage is not available, an average LDF shall be obtained by combining the applicable factors by coverage, taking into consideration the amount of the risk's total exposures or losses in each category as of the last survey or evaluation.