

**IMPORTANT MATERIAL
 TO BE IMPLEMENTED**

October 5, 2017

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: **Commercial Auto Loss Recoupment [NEW]**.

A new commercial auto (other than non-fleet private passenger automobile business) loss recoupment surcharge will be implemented **October 1, 2018** for all new and renewal commercial auto policies effective on or after October 1, 2018 through September 30, 2019.

The purpose of the surcharge is to recoup losses sustained by the North Carolina Reinsurance Facility on ceded commercial auto (other than non-fleet private passenger automobile) business. The surcharge will apply to **all commercial auto policies whether ceded to the NC Reinsurance Facility or retained as voluntary business by your company.**

We recognize the complexities of this change and the impact to the member companies, which is why we are providing this amount of advance notice. Additional information providing further details and support regarding web access, FTP (file transfer protocol) account setup, and testing options for companies who do not currently report monthly to the NCRF will be forthcoming and communicated by circular letter to all member companies. For companies currently reporting non-fleet private passenger auto loss recoupment to the Facility, you will find the commercial auto loss recoupment process very similar. Companies will be required to report monthly **beginning with the July 2018 accounting report submission** to the NCRF.

As this is a new recoupment surcharge, **this circular should be immediately brought to the attention of all interested personnel in your company responsible for programming, policy issuance or completing and submitting the monthly accounting reports to the NCRF.**

COMMERCIAL AUTO LOSS RECOUPMENT FACTOR

The following is the new commercial auto loss recoupment surcharge factor beginning **October 1, 2018.**

<u>Line code</u>	<u>Recoupment Type</u>	<u>Applicable to policies effective</u>	<u>Policy Type</u>	<u>Surcharge (before agent comp)</u>
CA51	Loss	10/1/18 - 9/30/19	Comm Auto	14.61%

For commercial auto (other than non-fleet private passenger automobile) business, a loss recoupment surcharge factor of **14.61% (before inclusion of agent compensation)** will be applicable in accordance with law to policies issued to become effective during the twelve months beginning **October 1, 2018.**

The commercial auto loss recoupment surcharge factor is applicable to the liability, medical payments, uninsured motorists and underinsured motorists coverage premiums for all vehicles insured on commercial auto (other than non-fleet private passenger) policies.

The commercial auto loss recoupment surcharge is subject to the payment of agent compensation. The applicable rules and procedures and other requirements relating to recoupment are on Section 4, pages 13-2 through 13-3 of the NCRF Standard Practice Manual, which we request that you review and carefully observe. A portion of this material is attached as **Exhibit 1**.

The loss recoupment surcharge factor which is applied to premium should be the published percentage adjusted to include the agent compensation or commission paid on commercial auto (other than non-fleet private passenger automobile) business whether ceded to the NC Reinsurance Facility or retained as voluntary business by your company. The surcharge must be rounded to the nearest hundredth of a percentage point in order to assure that proper agent compensation will be provided. For example, where a carrier pays (or would pay) a 10% commission on commercial auto (other than non-fleet private passenger) business, the loss recoupment surcharge would be **16.23% (.1461 ÷ .90 = .1623)**.

Where a 5% commission would be applicable (such as for long haul trucks and public passenger carrying vehicles other than school buses) the loss recoupment surcharge would be **15.38% (.1461 ÷ .95 = .1538)**

Examples are provided on **Exhibit 2**.

CLOSINGS AND REPORTING REVISIONS

Reporting begins with the July 2018 accounting report submission to the NCRF. The loss recoupment surcharge is to be reported in the Monthly Recoupment Report (submitted monthly) and the Recoupment Detail Report (submitted upon request by the NCRF) and identified by line code **CA51**. These reports are to be submitted in an electronic file submitted via FTP (file transfer protocol).

AMENDED REPORT FORMAT

Specifications for the Recoupment Detail Report are provided in the Standard Practice Manual, Section 4 Exhibits D-1 and D-2 and in the FTP Instruction Guide available on the NCRF website. These files may only be submitted via FTP.

Please see to it that the above is brought to the attention of all interested personnel in your company responsible for programming, policy issuance or completing and submitting the monthly accounting reports to the NCRF.

Questions regarding this circular should be directed to Bill Benton at 919-645-3187 or e-mail at: web@ncrb.org.

Sincerely,

Terry Collins,

Chief Operating Officer

North Carolina Reinsurance Facility

Attachments

North Carolina Reinsurance Facility Standard Practice Manual
Section 4, Chapter 13, Item C. Surcharges:

“The following are the guidelines applicable to the billing, collection, and recording of recoupment surcharges:

1. Surcharges apply on policies written to become effective during the time period announced by the Facility circulars. As to policies issued for a period of more than one year, the surcharge in effect at each anniversary of the policy effective date shall apply for the term, not to exceed one year, beginning on that date.
2. The surcharges are not considered or treated as written premiums, but on policies and billing statements the surcharges shall be combined with and displayed as a part of the applicable premium charges so that:
 - a. Under a single-vehicle policy the total amount of the applicable recoupment surcharges be divided equally and combined with the bodily injury and property damage liability premiums only.
 - b. Under a multi-vehicle policy the total amount of the applicable recoupment surcharges be divided equally among all vehicles and that the amount assigned to each vehicle be divided equally and combined with the bodily injury and property damage liability premiums only for each vehicle.
3. Since surcharges are not considered or treated as premiums
 - there are no escrow considerations;
 - there are no premium tax considerations;
 - there are no ceding or claim expense allowances on the surcharge amounts.
4. Surcharges are applicable only to liability coverages including bodily injury liability, property damage liability, medical payments, uninsured motorists, and underinsured motorists coverage premiums.
5. Exact surcharge amount (dollars and cents) must be charged and billed. Rounding is not permitted.
6. Detail records of surcharges are maintained at the company level. When required under Chapter 3, Paragraph J., member companies must submit a detail transaction listing to support surcharges reported to the Facility.
7. Policies may be canceled for non-payment of surcharge.
8. If a surcharged policy is canceled, there is an appropriate (pro rata, short rate or total) refund of the surcharges to the insured. Similarly, the surcharge(s) is adjusted in relation to additional or return premiums on transactions occurring after policy issuance.
9. [obsolete language removed]

10. On non-fleet private passenger car business to which any deviation from standard rates applies, the surcharge percentages otherwise applicable shall be adjusted so that the deviating company recovers the same dollar amount as would have been recovered had the surcharge percentages established by the Board of Governors been applied to the premium at standard rates. **[This is not applicable to the commercial auto loss recoupment]**
11. The Plan of Operation requires payment of compensation to agents in relation to recoupment surcharges. The guidelines are as follows:
 - a. Compensation shall be paid by members of the North Carolina Reinsurance Facility to agents for services performed by such agents in relation to the collection of recoupment surcharges applicable to policies written to become effective on or after October 1, 1981.
 - b. Such compensation amount shall be equal to an amount determined by multiplying (i) the percentage rate of compensation paid to agents by each member of the North Carolina Reinsurance Facility on business ceded to the Facility by (ii) the amount of the recoupment surcharge including the agent compensation. The minimum compensation to be paid to agents on business ceded to the North Carolina Reinsurance Facility, as provided in G.S. 58-37-30 (a), is 5% of the policy premium for long haul trucking applicants and public passenger carrying vehicles other than school buses and 10% of the policy premium for other risks.
 - c. The recoupment surcharge amount added to each policy premium subject thereto shall include the amount necessary for the member company to recover the compensation paid to the agent in addition to the amount determined by applying to such premium the percentage determined by the Board of Governors. For example, if (i) the percentage adopted by the Board of Governors is 11.7%, (ii) the policy covers a non-fleet private passenger automobile, and (iii) the company's compensation or commission rate for such business ceded to the Facility is 10%, then the recoupment surcharge percentage applied to the policy premium subject thereto is $.117 / .90 = .130$ or 13.0%. If the policy covers a taxicab and the company's compensation or commission rate on such business ceded to the Facility is 5%, the recoupment surcharge is $.117 / .95 = .123$ or 12.3%.

The amount of the recoupment surcharge shall be determined by multiplying the recoupment surcharge percentage by the policy premium subject thereto.

For example, if the policy premium is \$180 and the recoupment surcharge percentage is 13.0% the amount of the recoupment surcharge is $\$180 \times .130 = \23.40 .

- d. For each recoupment the surcharge percentage applied to each policy premium subject thereto shall be the same regardless of whether the policy is ceded to the Facility or voluntarily retained by the member company. If for any reason a member company should elect to pay on voluntary business a higher percentage agent compensation or commission on recoupment amounts than it pays on business ceded to the Facility, the amount reported monthly to the Facility as recoupments written must be the same as would be reported if the compensation or commission were the same as on business ceded to the Facility.

For example, if (i) the policy covers a non-fleet private passenger automobile not ceded to the Facility (ii) the member company pays agent compensation or commission of 10% on such business ceded to the Facility, (iii) the recoupment surcharge amount determined in accordance with the above is \$23.40, and (iv) the company elects for any reason to pay the agent compensation or commission at the rate of 15%, then the amount reported to the Facility as recoupment written net of agent compensation or commission must be $.90 \times \$23.40$ or \$21.06, not $.85 \times \$23.40$ or \$19.89.”

For your convenience, the above Exhibit 1 is an excerpt from the NCRF Standard Practice Manual to provide guidance on the definition and calculation of these surcharges. Please note that the excerpt outlines procedures for recoupments on all types of automobile policies, and that **the loss recoupment to be implemented and reported as described in this Circular Letter applies only to commercial auto** (other than non-fleet private passenger) policies.

SURCHARGE CALCULATION

The loss recoupment surcharge is to be **calculated on** liability, medical payments, uninsured motorists and underinsured motorists coverage premium amounts on all commercial auto policies, including those ceded to the NCRF and those retained voluntarily by member companies.

For example, consider a policy for a single-vehicle risk as shown below with total liability, medical payments, uninsured motorists and underinsured motorists coverage premiums of \$400.00 subject to the loss recoupment surcharge. This policy would have total surcharges of \$64.92 (\$400 x .1623).

Coverage	PREMIUMS	Amounts to be Charged after inclusion of Recoupment Surcharges
Bodily Injury	\$184.00	\$216.46 ^a
Property Damage	171.00	203.46 ^b
Medical Payments	25.00	25.00
Uninsured/Underinsured Motorists	20.00	20.00
Total	\$400.00	\$464.92

	Total Liability Premium X Surcharge	Surcharge divided by 2 (BI,PD)
Loss Recoupment surcharge 16.23%	\$64.92	\$32.46

a: \$184.00+32.46
b: \$171.00+32.46

As another example, consider a policy for a two-vehicle risk as shown below with total liability, medical payments, uninsured motorists and underinsured motorists coverage premiums of \$1,060.00 subject to the loss recoupment surcharge. This policy would have total surcharges of \$172.04 (\$1,060 x .1623).

Coverage	Premiums		Amounts to be charged after inclusion of Recoupment surcharges	
	Vehicle 1	Vehicle 2	Vehicle 1	Vehicle 2
Bodily Injury	\$403.00	\$125.00	\$446.01 ^a	\$168.01 ^c
Property Damage	301.00	123.00	344.01 ^b	166.01 ^d
Medical Payments	38.00	19.00	38.00	19.00
Uninsured/Underinsured Motorists	35.00	16.00	35.00	16.00
Total	\$777.00	\$283.00	\$863.02	\$369.02

	Total Liability Premium X Surcharge	Surcharge divided by 4 (2-BI,2-PD)
Loss Recoupment surcharge 16.23%	\$172.04	\$43.01

a: \$403.00+43.01
b: \$301.00+43.01
c: \$125.00+43.01
d: \$123.00+43.01

Note: Both examples assume a 10% agent commission.