

NORTH CAROLINA REINSURANCE FACILITY

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November 1, 2000

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Form NCRF-30 (Ed. 11/00)

Statement of Eligibility for Cession of Higher Coverage Limits

By Circular Letters to All Member Companies RF-00-9 dated August 3, 2000 and RF-00-11 dated August 16, 2000, member companies were advised of changes in the law which increased the financial responsibility limits for certain commercial vehicles to \$750,000. Questions have arisen regarding whether Form NCRF-30 must be completed when ceding a policy covering such a vehicle at these higher financial responsibility limits.

During a meeting held on October 25, 2000, The Facility's Board of Governors adopted an amended Form NCRF-30 - Statement of Eligibility for Cession of Higher Coverage Limits and amendments to Section 3 (Page 3-18) in the Facility's Standard Practice Manual and the Rules of Operation Section (Page E) in the Facility's Commercial Automobile Manual dealing with underwriting requirements. A copy of amended Form NCRF-30 and memoranda setting forth the amendments to the Manuals are enclosed.

The recent changes to N.C.G.S. 20-309(a) (part of the Motor Vehicle Financial Responsibility Act of 1957) added numerous vehicles to the list of vehicles required to have coverage limits greater than \$100,000/300,000/50,000 in North Carolina. In order to temper the effects of these legislative changes on member companies, Form NCRF-30 was amended to provide that Form NCRF-30 is not required to be completed in those instances where the sole reason that a vehicle is required to have coverage limits greater than \$100,000/300,000/50,000 is to comply with the recent changes to the Motor Vehicle Financial Responsibility Act of 1957. In effect, these amendments provide that if companies were required to complete Form NCRF-30 on a ceded risk prior to these amendments, they are still required to do so, but companies do not have to complete Form NCRF-30 on those ceded risks which are required to have coverage limits greater than \$100,000/300,000/50,000 solely by the recent changes in the Motor Vehicle Financial Responsibility Act of 1957.

The recent changes in the law dealing with higher financial responsibility limits for certain commercial vehicles suggest the need to clarify for the benefit of the Facility's ceding member companies the Facility's responsibilities and limitations as to coverage limits which may be ceded. The law on the subject appears in G.S. 58-37-35(b), a copy of which appears on Pages 1-3 and 1-4 in the Facility's Standard Practice Manual (Manual). The related Plan of Operation provision is in Section 2 of Article IX appearing on Page 2-5 in the Manual. The rules adopted by the Board of Governors pursuant to the law and Plan of Operation provisions are in Paragraph D of Section 3 appearing on Pages 3-1 and 3-2 in the Manual.

Regardless of the actual policy limits ceded to the Reinsurance Facility, and regardless of the limit or limits which might have been specified on the notice of cession, the Facility is not authorized, obligated or permitted to reimburse a loss in excess of the limit or limits cedable under the provisions cited above, except as provided in Paragraph C of Section 5 of the Manual dealing with excess judgments.

No carrier is required to insure a risk applying for coverages or limits which are not cedable to the Reinsurance Facility, but the Facility rules do not prohibit a carrier ceding to the Facility, up to the cedable limits, a policy carrying limits higher than may be ceded. In such cases, the carrier must include in the monthly accounting report for the premium transaction that portion of the total policy premium for the cedable coverages that equals the premium charges for the maximum limits which may be ceded. The carrier may retain or reinsure elsewhere the excess of policy limits above limits cedable to the Facility.

We urge you to make sure that this circular letter is brought to the attention of personnel in your Company responsible for the preparation of policies on commercial risks ceded to the Facility.

Member companies should make arrangements to obtain their own supplies of amended Form NCRF-30.

Very truly yours,

Raymond F. Evans, CPCU

General Manager

RFE:lm
RF-00-15