



NORTH CAROLINA REINSURANCE FACILITY
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February 3, 2003

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Terrorism Risk Insurance Act of 2002
Commercial Automobile

On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act of 2002 (the "Act"). The Act establishes a Terrorism Insurance Program (the "Program") which is administered by the U.S. Department of the Treasury and which provides a temporary federal backstop for commercial property and casualty insurance covering acts of terrorism.

One of the conditions for eligibility for federal payments in instances of certified acts of terrorism under the Act is that insurers must provide clear and conspicuous disclosure to the policyholder of the premium charged for insured losses covered by the Program and of the Federal share of compensation for insured losses under the Program.

- (A) For existing (in-force) policies issued before November 26, 2002, such disclosure must be made to the policyholder not later than 90 days after November 26, 2002;
- (B) For policies issued within 90 days of November 26, 2002 (that is, from November 26, 2002 through February 24, 2003), such disclosure must be made to the policyholder at the time of offer, purchase, and renewal of the policy; and
- (C) For policies issued more than 90 days after November 26, 2002 (that is, after February 24, 2003), such disclosure must be made on a separate line item in the policy at the time of offer, purchase and renewal of the policy.

To date, no losses that would have been covered by the Program had it been in effect have ever been included in the rates promulgated or adopted by the North Carolina Reinsurance Facility for use in North Carolina. In addition, the Reinsurance Facility has determined, based on its work with Insurance Services Office, that the currently indicated premium for insurance covering acts

of terrorism covered under the Program for policies ceded to the Reinsurance Facility is approximately one dollar, and it has also determined that the costs associated with charging that premium under the Program would likely equal or exceed that amount. Consequently, the Reinsurance Facility has determined that, until further notice, policies ceded to the Reinsurance Facility will continue to cover acts of terrorism as required under the Act and that no additional premium will be charged. Therefore, it is appropriate to indicate in the disclosures required under the Act that the premium charged for insured losses under the Program is zero dollars (\$0).

The Reinsurance Facility has adopted and filed Endorsement CA 70 56 and Disclosure Notice RF 03 05 to be used with commercial automobile policies ceded to the Reinsurance Facility. (Please note that these items are not applicable to non-fleet private passenger automobile policies ceded to the Reinsurance Facility.) The Reinsurance Facility has also adopted a new manual rule regarding the use of this endorsement and disclosure notice. Copies of Endorsement CA 70 56, Disclosure Notice RF 03 05 and the new manual rule are attached hereto and should be self-explanatory.

If you have questions, please contact the undersigned.

Very truly yours,

F. Timothy Lucas

Automobile Manager

FTL:dp

Enclosures

RF-03-3

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.



CAP ON LOSSES FROM CERTIFIED ACTS OF TERRORISM

This endorsement modifies insurance provided under the following:

BUSINESS AUTO COVERAGE FORM
BUSINESS AUTO PHYSICAL DAMAGE COVERAGE FORM
GARAGE COVERAGE FORM
MOTOR CARRIER COVERAGE FORM
SINGLE INTEREST AUTOMOBILE PHYSICAL DAMAGE INSURANCE POLICY
TRUCKERS COVERAGE FORM

With respect to coverage provided by this endorsement, the provisions of the Coverage Form apply unless modified by the endorsement.

A. With respect to any one or more "certified acts of terrorism", we will not pay any amounts for which we are not responsible under the terms of the federal Terrorism Risk Insurance Act of 2002 (including subsequent acts of Congress pursuant to the Act) due to the application of any clause which results in a cap on our liability for payments for terrorism losses. "Certified act of terrorism" means an act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State and the Attorney General of the United States, to be an act of terrorism pursuant to the federal Terrorism Risk Insurance Act of 2002. The federal Terrorism Risk Insurance Act of 2002 sets forth the following criteria for a "certified act of terrorism":

1. The act resulted in aggregate losses in excess of \$5 million; and
2. The act is a violent act or an act that is dangerous to human life, property or infrastructure and is committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the United States or to

influence the policy or affect the conduct of the United States Government by coercion.

B. Application Of Other Exclusions

The terms and limitations of any terrorism exclusion, or the inapplicability or omission of a terrorism exclusion, do not serve to create coverage for any loss which would otherwise be excluded under this Coverage Form, such as losses excluded by a Nuclear Hazard Exclusion or a War Or Military Action Exclusion.

C. DISCLOSURE OF PREMIUM CHARGE

The portion of your premium attributable to coverage for terrorist acts certified under the Act is \$0.00.

D. DISCLOSURE OF FEDERAL PARTICIPATION IN PAYMENT OF TERRORISM LOSSES

The United States Government, Department of the Treasury, will pay a share of terrorism losses insured under the federal program. The federal share equals 90% of that portion of the amount of such insured losses that exceeds the applicable insurer retention.

NOTICE - DISCLOSURE OF COMMERCIAL AUTO TERRORISM PREMIUM

The Terrorism Risk Insurance Act of 2002 establishes a program within the Department of the Treasury, under which the federal government shares, with the insurance industry, the risk of loss from future terrorist attacks. The Act applies when the Secretary of the Treasury certifies that an event meets the definition of an act of terrorism. The Act provides that, to be certified, an act of terrorism must cause losses of at least five million dollars and must have been committed by an individual or individuals acting on behalf of any foreign person or foreign interest to coerce the government or population of the United States.

In accordance with the federal Terrorism Risk Insurance Act of 2002, we are required to provide you with a notice disclosing the portion of your premium, if any, attributable to the coverage for terrorist acts certified under that Act. Your Coverage Part/Policy covers such losses.

DISCLOSURE OF PREMIUM CHARGE

The portion of your premium attributable to coverage for terrorist acts certified under the Act is \$0.00.

DISCLOSURE OF FEDERAL PARTICIPATION IN PAYMENT OF TERRORISM LOSSES

The United States Government, Department of the Treasury, will pay a share of terrorism losses insured under the federal program. The federal share equals 90% of that portion of the amount of such insured losses that exceeds the applicable insurer retention.

15. TERRORISM ENDORSEMENT. FEDERAL BACKSTOP

The "Terrorism Risk Insurance Act of 2002" establishes a temporary program within the Department of the Treasury in which the federal government will share the risk of loss from terrorist attacks with the insurance industry (the "Program"). All insurers providing commercial property and casualty insurance are required to participate in the Program to the extent of offering and making available coverage for certified acts of terrorism in accordance with the terms and conditions of coverage which apply to other perils.

For all commercial automobile policies ceded to the Reinsurance Facility while the Program is in effect, the insurer must disclose to the policyholder the premium for losses covered by the Program and the federal share of compensation for such losses under the Program. To comply with this condition of the Program, the following steps are required for commercial automobile policies ceded to the Reinsurance Facility:

- (a) Disclosure Notice RF 03 05** is required to be sent on all current in-force commercial automobile policies ceded to the Reinsurance Facility that were in force before November 26, 2002 and on all new and renewal commercial automobile policies ceded to the Reinsurance Facility issued during the period beginning on November 26, 2002 and continuing through and including February 24, 2003.
- (b) Endorsement CA 70 56-Cap On Losses From Certified Acts Of Terrorism** is required to be attached to all commercial automobile policies ceded to the Reinsurance Facility for which Disclosure Notice RF 03 05 is required to be sent and to all commercial automobile policies ceded to the Reinsurance Facility issued after February 24, 2003 while the Program is in effect.