

**STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE SERVICES**

Bulletin 2007-04-INS

In the matter of

Catastrophic Claims Association – Reporting

**Issued and entered
this 6th day of March 2007
By Linda A. Watters
Commissioner**

The Michigan Catastrophic Claims Association (Association) was created by 1978 PA 136, MCL 500.3104. All insurers authorized to write insurance coverages that provide security required by Section 3101 of the Michigan Insurance Code are required to be members of the Association. The purpose of the Association is to indemnify members against ultimate loss in excess of the applicable amount (threshold) set forth in Section 3104(2) of the Michigan Insurance Code. 2001 PA 3, MCL 500.3104, resulted in significant changes to the Association's operations. Effective July 1, 2002, the basis for the annual assessment changed to written car years from earned car years. Also, the threshold amount of ultimate loss members must incur before the Association will be obligated to reimburse for a single loss occurrence was increased, and will continue to increase by specified amounts until July 1, 2013, when the amount will increase biennially by the lesser of 6% or the consumer price index.

The purpose of the Association is to share among its members all losses on personal protection insurance (PIP) in excess of the threshold per accident. The Association operates substantially similar to a reinsurer.

The purpose of this Bulletin is to establish reporting procedures. This Bulletin supersedes and replaces Bulletins 79-10 and 82-16.

Each member shall record transactions with the Association in the following manner in their statutory financial statements. Reporting should be in accordance with this Bulletin and, to the extent it does not conflict with the guidance in this Bulletin, any other statutory accounting guidance on reinsurance accounting prescribed by the Commissioner.

1. Premium Transactions – The assessment charged by the Association shall be treated as a reinsurance transaction. Assessments due or paid to the Association shall be treated in the same manner as normal reinsurance premiums.

2. Claim Transactions – The accounting treatment of Reimbursable Ultimate Losses involves two distinct types of transactions, i.e., a) amounts due from the Association as reimbursement for paid losses and b) amounts recoverable from the Association for unpaid losses. The Association's Plan of Operation states, in part, that the Association shall reimburse its members for Reimbursable Ultimate Losses upon verification of the propriety and amount of the payments made by the member and the member's entitlement to reimbursement.
 - a. Amounts Recoverable – Paid Losses – The Association reimburses its members for Reimbursable Ultimate Losses in accordance with its Plan of Operation. Amounts recoverable on paid losses should be included as an asset for reinsurance recoverable on the appropriate line of the balance sheet and Schedule F in the statutory financial statements.
 - b. Amounts Recoverable – Unpaid Losses – Unpaid Reimbursable Ultimate Losses should be reflected in the appropriate Underwriting and Investment Exhibit at their total gross aggregate amount as direct reported unpaid losses with the appropriate corresponding amount reported under Reinsurance Recoverable from Authorized and Unauthorized Companies, for the amount that the reserve for each Reimbursable Ultimate Loss, included in the direct column, exceeds the Association's threshold. This latter amount must be adjusted for recoveries previously received or currently receivable from the Association. Corresponding "tie-in" entries should be made to Schedule F for Reinsurance Receivable on Unpaid Losses.
3. Reserve Credits – The insurer may take credit for loss reserves on PIP losses payable by the Association. The reserve credit taken must be shown in the appropriate schedule on Schedule F of the annual statement as reinsurance recoverable on unpaid losses from the Association.
4. Loss Adjustment Expenses – MCLA 500.3104(2) states the Association shall provide indemnification for 100% of the amount of ultimate loss sustained under personal protection insurance coverage in excess of the threshold. Ultimate loss is defined in section 3104 as the actual loss amounts a member is obligated to pay and that are paid or payable by the member, and do not include claim expenses. The Association does not reimburse for loss adjustment expenses, except as authorized in the MCCA Plan of Operation and approved by the Commissioner. Members should not record any unauthorized, unapproved ceded loss adjustment expenses to the MCCA in the financial statements.

In addition to the above guidance on reporting amounts related to the Association in the financial statements, the following guidance is provided to insurers regarding incorporating any costs associated with being a member of the Association into premium.

Same rate-making recognition as expenses and premium taxes

MCLA 500.3104(22) states premiums charged members by the association shall be recognized in the rate-making procedures for insurance rates in the same manner that expenses and premium taxes are recognized. Insurers do not identify non-assessment expenses and premium taxes as separate rates within their rule and rate manual. Rather, ratemaking methodologies identify coverage rates that include the appropriate amount of expenses and premium taxes. If an expense is associated with every coverage in the policy, then each coverage rate includes an applicable portion thereof to cover the losses and/or expenses that are expected to occur.

Since the MCCA assessment and associated costs are related only to personal injury protection coverage (PIP), they must be included in the PIP premium that will be charged to policyholders.

In addition, if a policy is cancelled before its expiration, any premium refund to the policyholder should also include the pro rata refund of any costs related to the Association that is included in the premium.

Reporting to Statistical Agencies and OFIS

Unless specifically requested otherwise by the Commissioner, insurers must report PIP premiums to statistical agencies to which they are members (ISO, PCAII, NISS, AAIS, etc.) and OFIS (when required) in the following manner:

Written Premium: Report the direct written premium amounts in whole dollars. The Personal Injury Protection (PIP) premiums reported should include the assessments charged every vehicle under the Michigan Catastrophic Claims Association (MCCA) program.

Incurred Losses: Account for the actual incurred loss amounts in whole dollars. Personal Injury Protection (PIP) losses should not be reduced by reimbursements from the Michigan Catastrophic Claims Association (MCCA). Also, do not include allocated loss adjustment expenses.

Incurred Claim Counts: Report the actual incurred claim counts. No Fault (PIP) claim counts will only represent medical losses, paid and outstanding, to avoid duplication of claim counts.

Rate Filings

Recoupment of assessments are not pass throughs as some insurers claim. They are rate charges used to develop final premium. Therefore, when submitting rate filings, any increase or decrease in charges (premium) based on recoupment of the MCCA assessment must be identified within the overall percentage rate change for the filing. Also, each rate filing that includes increased rates for policyholders based on new or revised assessment amounts must include an exhibit which shows the per vehicle

amount of the assessment and associated costs that you used to help determine the coverage premium.

Any questions regarding the Rate Filings paragraph in this bulletin should be directed to the Product Review Unit at 517-373-4948. All questions regarding the remainder of the bulletin should be directed to:

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A handwritten signature in cursive script that reads "Linda A. Watters". The signature is written in black ink and is positioned above a horizontal line.

Linda A. Watters
Commissioner of Financial and Insurance Services