STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES

Bulletin 2019-25-INS

In the matter of:

Catastrophic Claims Association – Reporting
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Issued and entered
this 21st day of November 2019
by Anita G. Fox
Director

This bulletin supersedes Bulletin 2007-04-INS, which is hereby rescinded.

Bulletin 2007-04-INS generally established reporting procedures related to transactions with the Michigan Catastrophic Claims Association (MCCA). Section 3104(20) of the Insurance Code, MCL 500.3104(20), as amended by PA 21 of 2019, provides that if a member of the MCCA passes on any portion of the premium payable under Section 3104 to an insured, the amount passed on must equal the portion of the premium payable by the member. Therefore, this Bulletin provides clarification to insurers regarding the incorporation of MCCA member costs into premium.

The MCCA 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 MCCA. The purpose of the MCCA is to indemnify members against ultimate loss in excess of the applicable amounts (threshold) set forth in Section 3104(2) of the Michigan Insurance Code. 2001 PA 3, MCL 500.3104, resulted in significant changes to the MCCA's operations. The threshold amount of ultimate loss members must incur before the MCCA will be obligated to reimburse for a single loss occurrence is $580,000 for the period July 1, 2019 to June 30, 2021. Beginning July 1, 2021, the $580,000 amount will increase biennially on July 1 of each odd-numbered year, for policies issued or renewed before July 1 of the following odd-numbered year, by the lesser of 6% or the Consumer Price Index, and rounded to the nearest $5,000.

Each member shall record transactions with the MCCA 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 Director.

1. Premium Transactions – The assessment charged by the MCCA shall be treated as a reinsurance transaction. Assessments due or paid to the MCCA 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 MCCA as reimbursement for paid losses, and b) amounts recoverable from the MCCA for unpaid losses. The MCCA's Plan of Operation states, in part, that the MCCA 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 MCCA 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 MCCA's threshold. This latter amount must be adjusted for recoveries previously received or currently receivable from the MCCA. 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 MCCA. 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 MCCA.

4. Loss Adjustment Expenses – MCL 500.3104(2) states that the MCCA shall provide indemnification for 100% of the amount of the 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 that a member is obligated to pay and that are paid or payable by the member, and do not include claim expenses. The MCCA does not reimburse for loss adjustment expenses, except as authorized in the MCCA Plan of Operation and approved by the Director. 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 MCCA in the financial statements, the following guidance is provided to insurers regarding incorporating any costs associated with being a member of the MCCA into premium.

Reporting to Statistical Agencies and the Department of Insurance and Financial Services (DIFS)
Unless specifically requested otherwise by the Director, insurers must report PIP premiums to statistical agencies to which they are members (ISO, PCAII, NISS, AAIS, etc.) and DIFS (when required) in the following manner:

Written Premium: Report the direct written premium amounts in whole dollars. Personal Injury Protection (PIP) premiums reported should include the assessments charged every vehicle under the 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 MCCA. Also, do not include allocated loss adjustment expenses.

<u>Incurred Claim Counts:</u> 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
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 and must be consistent with Section 3104(20) of the Insurance Code. 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 that you used to help determine the coverage premium.

Any questions regarding this bulletin should be directed to:

Department of Insurance and Financial Services
Office of Insurance Rates and Forms
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P.O. Box 30220
Lansing, Michigan 48909-7720
Toll Free: (877) 999-6442

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Director