



DEPARTMENT OF INSURANCE
State of North Carolina

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JIM LONG
COMMISSIONER OF INSURANCE

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MEMORANDUM

TO: All Insurers Licensed to Write Automobile Liability in North Carolina

FROM: Jim Long
Commissioner of Insurance
State of North Carolina

Date: March 7, 2007

Re: Rate Evasion

The purpose of this memorandum is to alert your company to an alarming issue that has developed in North Carolina – RATE EVASION. Rate evasion involves the intent to obtain insurance by knowingly making false statements or intentional misrepresentations on the insurance application in order to receive the benefits associated with insurance. In short, rate evasion is insurance fraud. Rate evasion occurs when non-residents of North Carolina come here to obtain automobile insurance in order to avoid paying higher rates in their home states. North Carolina is very fortunate to have the 5th lowest private passenger automobile insurance rates in the country. This makes our state a prime target for rate evasion.

What can we do about it? The combined and committed efforts of you in the insurance industry, your agents and representatives, our elected officials in the General Assembly, officials here at the Department of Insurance and in other state agencies is needed to successfully address rate evasion. The Department of Insurance definitely plans to do its part. Proposed legislative changes are currently under review.

There are a number of ways for companies to become involved in addressing rate evasion. Companies must first commit to initiating rate evasion prevention programs for new applicants as well as existing policyholders. Some of the risk characteristics that should be reviewed thoroughly when underwriting the risk (including Facility business) are as follows:

- Out-of-state licenses
- Out-of-state license plates
- Prior and current out of state accidents
- Mailing address (especially if different from garaging address or out-of-state)
- Out-of-state phone numbers (including cell phone number)
- Number of vehicles compared with number of drivers (garaging locations)

- Return mail
- Proof of NC residence – Validate residency at the point of sale
- Excessive number of policies with the same mailing and/or garaging address
- Multiple unrelated individuals insuring vehicles at same garaging address

Additional measures that companies must take to identify potential rate evasion involve routinely monitoring databases for unusual or identifying characteristics and educating the agency force on this important issue.

Rate evasion is a problem that can be curtailed with the efforts of all aforementioned parties. The Department's Agent Services Division is contacting all licensed agents in North Carolina to warn them about this type of fraud as well, and we hope you will echo this warning to those who represent your company. Thank you in advance for all of your efforts to respond promptly and effectively to this issue.