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BULLETIN 90-1

TO: All Property-Casualty Insurance Companies

FROM: Earl R. Pomeroy, Commissioner of Insurance

DATE: March 15, 1990

RE: Prospective Loss Costs Filing Procedures

Recent public pressure has resulted in the major rating organizations voluntarily changing their method of rate filing from a "full advisory final rate" to a "prospective loss cost" based system.

The statute N.D.C.C. Chapter 26.1-25 currently recognizes "full advisory final rates", however, it does not prohibit a rating organization from providing filings on a statistically based "prospective loss cost" basis. Accordingly, the Department does recognize filings based upon this new prospective loss cost methodology.

Prospective Loss Costs Filing Procedures

This bulletin specifies the framework under which rating organizations and participating insurers in rating organizations will operate in a loss cost system. Under this system, rating organizations will no longer develop or file advisory final rates but instead will develop and file, for approval, advisory prospective loss costs and supporting actuarial and statistical data. Each insurer must individually determine and file the rates it will use as a result of its own independent company decision-making process. Rating organizations will continue to develop and file rules, relativities and supplementary rating information on behalf of their participating insurers.

Nothing in these procedures shall be construed to require rating organizations or their participating insurers to immediately refile rates previously implemented. Any participating insurer of a rating organization is authorized to continue to use all rates and deviations filed and approved for its use until disapproved, or the insurer makes its own filing to change its rates, either by making an independent filing or by filing a Reference Filing Adoption Form adopting the rating organization's prospective loss costs, or modification thereof.

Definitions

A) "Expenses" means that portion of a rate attributable to acquisition, field supervision, collection expenses, general expenses, taxes, licenses, and fees.

B) "Rate" means the cost of insurance per exposure unit, whether expressed as a single number or as a prospective loss cost with an adjustment to account for the treatment of expenses, profit and variations in loss experience, prior to any application of individual risk variations based on loss or expense considerations, and does not include minimum premiums.

C) "Developed losses" means losses (including loss adjustment expenses) adjusted, using standard actuarial techniques, to eliminate the effect of differences between current payment or reserve estimates and those needed to provide actual ultimate loss (including loss adjustment expense) payments.

D) "Loss trending" means any procedure for projecting developed losses to the average date of loss for the period during which the policies are to be effective.

E) "Prospective loss costs" are that portion of a rate that does not include provisions for expenses (other than loss adjustment expenses) or profit, and are based on historical aggregate losses and loss adjustment expenses adjusted through development to their ultimate value and projected through trending to a future point in time.

F) "Supplementary rating information" includes any manual or plan of rates, classification, rating schedule, minimum premium, policy fee, rating rule, rate-related underwriting rule, experience rating plan, statistical plan and any other similar information needed to determine the applicable rate in effect or to be in effect.

Section I: Rates/Loss Costs

A) Rating Organization Action

- Although not required to do so by current statute, those rating organizations who are voluntarily making this change will no longer develop or file advisory final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for all lines, rating organizations will develop and file for approval with the Insurance Commissioner in accordance with N.D.C.C. Chapter 26.1-25, a Reference Filing containing advisory prospective loss costs and supporting actuarial and statistical data.

- Reference Filings will contain the advisory prospective loss costs and the underlying loss data and other supporting actuarial information for any calculations or assumptions underlying those loss costs.

- After a Reference Filing has been filed with the Insurance Department and approved, the rating organization will provide its participating insurers with a copy of the approved Reference Filing.

- The rating organization may print and distribute manuals of prospective loss costs as well as rules and other supplementary rating information described in Section II A.

- With the initial prospective loss costs Reference Filing, rating organizations will no longer develop or file any minimum premiums.

B) Insurer Action

- Each insurer must individually determine the final rates it will file for approval and the effective date of any rate changes. This will be the result of the independent company decision-making process of each insurer.

- If an insurer that is a member, subscriber or service purchaser of a rating organization decides to use the prospective loss costs in the approved Reference Filing in support of its own filing, the insurer should make a filing for approval using the Reference Filing Adoption Form. The insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Reference Filing Adoption Form.

- Insurers may file modifications of the prospective loss costs in the approved Reference Filing based on their own anticipated experience. Supporting documentation will be required for any modifications (upwards or downwards) of the prospective loss costs in the approved Reference Filing.

- Insurers may vary expense loads by individual classification, grouping, or subline of insurance. Insurers may use variable or fixed expense loads or a combination of these to establish their expense loadings.

- If an insurer wishes to use minimum premiums, it must file, for approval, the minimum premiums it proposes to use.

- The insurer may request to have its loss costs adjustments remain on file and reference all subsequent prospective loss costs Reference Filings. Upon receipt of subsequent approved rating organization loss costs Reference Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Reference Filing Adoption Form on file with the Insurance Department, and will be effective on or after the effective date of the prospective loss costs. The insurer need not file anything further with the Insurance Department.

- If an insurer that has filed to have its loss cost adjustments remain on file with the Insurance Department intends to delay, modify, or not adopt a particular rating organization loss costs Reference Filing, the insurer must make an appropriate filing with the Insurance Department.

- The insurer's filed loss cost adjustments will remain in effect until the insurer withdraws them or files and receives approval of a revised Reference Filing Adoption Form.

- Insurers may file such other information which the company deems relevant and shall provide such other information as may be requested by the Insurance Department.

- To the extent that an insurer's final rates are determined solely by applying its loss cost adjustments, as presented in the Reference Filing Adoption Form, to the prospective loss costs contained in a rating organization's Reference Filing and printed in the rating organization's rating manual, the insurer need not develop or file its final rate pages with the Insurance Commissioner. If an insurer chooses to print and distribute final rate pages for its own use, based solely upon the application of its filed loss costs, the insurer shall file those pages with the Insurance Commissioner. If the rating organization does not print the loss costs in its manual, the insurer must submit its rates to the Insurance Commissioner.

For future Reference Filings filed by the rating organization:

- If the insurer HAS filed to have its loss cost adjustments remain on file, applicable to subsequent Reference Filings, and a new Reference Filing is filed and approved and

If....	Then....
1. the insurer decides to use the revision of the prospective loss costs and effective date as filed...	1. the insurer does NOT file anything with the Insurance Department. Rates are the combination of the prospective loss costs and the on-file loss cost adjustments and become effective on the effective date of the loss costs.
2. the insurer decides to use the prospective loss costs as filed BUT with a different effective date...	2. the insurer must notify the Insurance Department of its effective date before the effective date of the loss costs.
3. the insurer decides to use the revision of the prospective loss costs, but wishes to change its loss cost adjustments...	3. the insurer must file for approval a revised Reference Filing Adoption Form before the effective date of the Reference Filing.
4. the insurer decides NOT to revise its rates using the prospective loss costs...	4. the insurer must notify the Insurance Department before the effective date of the loss costs.

- If an insurer has NOT elected to have its loss cost adjustments remain on file, applicable to future prospective loss costs reference filings, and a new Reference Filing is filed and approved, and

If...	Then...
1. the insurer decides to use the prospective loss costs to revise its rates...	1. the insurer must file a Reference Filing Adoption Form for approval including its effective date.
2. the insurer decides NOT to use the revisions...	2. the insurer does not file anything with the Insurance Department.

Section II: Supplementary Rating Information

A) Advisory Organization Action

- The rating organization files with the Insurance Department, for approval, filings containing a revision of rules and supplementary rating information. This includes policy-writing rules, rating plans, classification codes and descriptions, territory codes and descriptions and rules which include factors or relativities such as increased limits factors, classification relativities or similar factors but excludes minimum premiums.

- These filings are made by the rating organization on behalf of those insurers that have authorized the rating organization to file rules, relativities and supplementary rating information on their behalf.

- Rating organizations may print and distribute manuals of rules and supplementary rating information excluding minimum premiums.

B) Insurer Action

- If an insurer has authorized a rating organization to file on its behalf, and a new filing of rules, relativities and supplementary rating information is filed and approved and

If...	Then...
1. the insurer decides to use the revisions and effective date as filed...	1. the insurer does NOT file anything with the Insurance Department.
2. the insurer decides to use the revisions as filed BUT with a different effective date...	2. the insurer must notify the Insurance Department of its effective date before the approved rating organization's effective date.

3. the insurer decides not to use the revision...	3. the insurer must notify the Insurance Department before the rating organization's effective date.
4. the insurer decides to use the revision with modifications...	4. the insurer must file the modification with the Insurance Department, for approval, specifying the basis for the modification and the insurer's proposed effective date if different than the effective date filed by the rating organization.

Insurer Name: _____ Date: _____

NAIC Number: _____

EXPENSE CONSTANT SUPPLEMENT

CALCULATION OF COMPANY LOSS COST MULTIPLIER WITH EXPENSE CONSTANTS

3. Development of Expected Loss Ratio. (Attach exhibit detailing insurer expense data and/or other supporting information.)

	Overall	Selected Provisions Variable	Fixed
A. Total Production Expense	_____	_____	_____
B. General Expense	_____	_____	_____
C. Taxes, Licenses & Fees	_____	_____	_____
D. Underwriting Profit & Contingencies	_____	_____	_____
E. Other (explain)	_____	_____	_____
F. TOTAL	_____	_____	_____

4 A. Expected Loss Ratio: ELR=100% – Overall 3F = _____

B. ELR expressed in decimal form = _____

C. Variable Expected Loss Ratio VELR=100% – Variable 3F = _____

D. VELR in decimal form = _____

5. Formula Expense Constant:

[(1.00 ÷ 4B) – (1.00 ÷ 4D)] x Average Underlying Loss Cost = _____

Formula Variable Loss Cost Multiplier: (2B ÷ 4D) = _____

6. Selected Expense Constant = _____

Selected Variable Loss Cost Multiplier = _____

7. Explain any differences between 5 and 6:

_____

_____

_____

8. Rate level change for the coverages to which this page applies _____ %

Insurer Name: _____ Date: _____

NAIC Number: _____

INSURER RATE FILING
ADOPTION OF ADVISORY ORGANIZATION PROSPECTIVE LOSS COSTS
SUMMARY OF SUPPORTING INFORMATION FORM

CALCULATION OF COMPANY LOSS COST MULTIPLIER

1. Line, Subline, Coverage, Territory, Class, etc. combination to which this page applies:

_____

2. Loss Cost Modification:

A. The insurer hereby files to adopt the prospective loss costs in the captioned reference filing: (CHECK ONE)

☐ Without modification. (factor = 1.000)

☐ With the following modification(s). (Cite the nature and percent modification, and attach supporting data and/or rationale for the modification.)

_____

_____

B. Loss Cost Modification Expressed as a Factor: _____
(See examples below.)

NOTE: IF EXPENSE CONSTANTS ARE UTILIZED, ATTACH "EXPENSE CONSTANT SUPPLEMENT" OR OTHER SUPPORTING INFORMATION. DO NOT COMPLETE ITEMS 3 – 7 BELOW.

3. Development of Expected Loss Ratio. (Attach exhibit detailing insurer expense data and/or other supporting information.)

	Selected Provisions
A. Total Production Expense	%
B. General Expense	%
C. Taxes, Licenses & Fees	%
D. Underwriting Profit & Contingencies	%
E. Other (explain)	%
F. TOTAL	%

4A. Expected Loss Ratio: ELR=100% – 3F = _____ %

4B. ELR in decimal form = _____

5. Company Formula Loss Cost Multiplier: (2B ÷ 4B) = _____

6. Company Selected Loss Cost Multiplier = _____
Explain any differences between 5 and 6:

_____

_____

7. Rate level change for the coverages to which this page applies _____ %

Example 1: Loss Cost modification factor: If your company's loss cost modification is –10%, a factor of .90 (1.000 – .100) should be used.

Example 2: Loss Cost modification factor: If your company's loss cost modification is +15%, a factor of 1.15 (1.000 + .150) should be used.

Date: _____

Space Reserved for Insurance Department Use

INSURER RATE FILING
ADOPTION OF ADVISORY ORGANIZATION
PROSPECTIVE LOSS COSTS
REFERENCE FILING ADOPTION FORM

1. INSURER NAME _____

   ADDRESS _____

   _____

   _____

   _____

   PERSON RESPONSIBLE FOR FILING _____

   TITLE _____ TELEPHONE # _____

2. INSURER NAIC # _____

3. LINE OF INSURANCE _____

4. ADVISORY ORGANIZATION _____

5. ADVISORY ORGANIZATION REFERENCE FILING # _____

6. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named advisory organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss costs in the captioned Reference Filing.

   The insurer's rates will be the combination of the prospective loss costs and the loss cost multipliers and, if utilized, the expense constants specified in the attachments.

7. PROPOSED RATE LEVEL CHANGE _____ % EFFECTIVE DATE _____

8. PRIOR RATE LEVEL CHANGE _____ % EFFECTIVE DATE _____

9. ATTACH "SUMMARY OF SUPPORTING INFORMATION FORM"
   (Use a separate Summary for each insurer-selected loss cost multiplier.)

10. CHECK ONE OF THE FOLLOWING:

    ☐ The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable to future revisions of the advisory organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the advisory organization's prospective loss costs and the insurer's loss cost multipliers and, if utilized, expense constants specified in the attachments. The rates will apply to policies written on or after the effective date of the advisory organiation's prospective loss costs. This authorization is effective until disapproved by the Commissioner, or amended or withdrawn by the insurer.

    ☐ The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the above Advisory Organization Reference Filing.