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Commissioner of Insurance

DEPARTMENT OF INSURANCE

STATE OF NORTH DAKOTA

Bulletin # 93-1

TO: All Property & Casualty Companies Writing Crop Hail

FROM: Glenn Pomeroy, Commissioner

DATE: February 12, 1993

SUBJECT: Amendment to Bulletin # ~~93-1~~ 92-7

Bulletin ~~#93-1~~ 92-7 provided the rules, procedures and forms for crop hail companies to use in filing 1993 rate and form filings. This bulletin amends the previous bulletin in two areas.

1. Changes from a single to a multiple loss cost factor system.

2. Extends the filing cut off date to March 10, 1993.

The procedures set forth initially contemplated the transition to loss cost based methodologies and the Department's goal to keep the transition impacts to a minimum. A major component of this new procedure was to restrict rate development to the use of only one statewide loss cost multiplier. However, in light of historical rate developments, companies rate histories and potential adverse impacts to current rate levels significant concerns have been raised regarding the limitation to one statewide factor. Accordingly, further analysis has resulted in the following modification to the original bulletin.

1) Bulletin #92-7, page two, Rate Filings, paragraph 2, <u>Delete</u> the sentence "A company's loss cost multiplier must be applied uniformly to all rate categories on a statewide basis."

2) In Bulletin #92-7, page three, paragraph 1, subsection 2,

   a. Change multiplier to <u>multipliers</u> in both cases.

   b. Replace the <u>NOTE</u> with the following: "Each Insurer will be required to file three separate loss cost multipliers. One multiplier for each of the high, medium, and low loss cost ranges. The loss cost multiplier arrived at for the medium loss cost range will be the basis for development of the multiplier for the

other two ranges. The medium loss cost multiplier is based on a companies expected loss ratio (ELR) limited to a maximum of 70% (30% expense factor or LCM of 1.429). From your developed ELR (medium range) subtract 5% to arrive at the ELR for your low range loss cost multiplier. From the ELR (medium range) add 5% to arrive at the ELR for the high range. This procedure is required of all companies. Refer to revised NDPC 200 (10/92) page 2 for proper form and formulas.

The loss cost ranges to be used will be :

Low Range of FALC's	=	$3.42 or Less
Medium Range of FALC's	=	$3.43 to $6.82
High Range of FALC's	=	$6.83 or Greater"

While other alternatives were also considered, this modification will address the immediate concerns as well as enhance long term stability in the transition process.

Insurer Name: _____ Date: _____
NAIC Number: _____

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

CALCULATION OF COMPANY LOSS COST MULTIPLIER

1. DEVELOPMENT OF EXPENSE RATIO

Attach 5 year insurer expense history and any other additional supporting information. This filing will not be considered unless the completed Expense history form is attached.

	PROPOSED PROVISIONS
A. Total Production Expense:	_____ %
B. General Expense:	_____ %
C. Loss Adjustment Expense:	_____ %
D. Taxes, Licenses & Fees:	_____ %
E. Underwriting Profit & Contingencies:	_____ %
F. Other (Explain):	_____ %
G. TOTAL :	_____ %

2. EXPECTED LOSS RATIO:

A. For Medium Range FALCs: (ELR = 100% – #1G) (Must not be more than 70%)	_____ %
B. For Low Range FALCs: (ELR = #2A – 5%)	_____ %
C. For High Range FALCs: (ELR = #2A + 5%)	_____ %

3. COMPANY FORMULA LOSS COST MULTIPLIER:

A. For Medium Range FALCs: (FLCM = 1.00 / #2A) (Must not be less than 1.429)	_____
B. For Low Range FALCs: (FLCM = 1.00 / #2B)	_____
C. For High Range FALCs: (FLCM = 1.00 / #2C)	_____

Provide detailed explanation and support for any difference between historical and proposed expense provisions.

_____
_____
_____

4. CASH DISCOUNT: _____ %

7 B. Rate Change due to Insurer's revised Loss Cost Multiplier

Show the aggregate percent change for the state of North Dakota in the rate due solely to revision of your company's loss cost multiplier.

In order to compute this percentage change in rate filings for the 1993 season, you must first compute the implied loss cost multiplier that your company would have filed in the 1992 season. An example of how this implied loss cost multiplier is calculated follows:

Suppose for the 1992 Crop season, your company filed for a 10% deviation and a 10% cash discount. The first step then is to subtract these two items from 1.00.

1.00 - 10% Deviation - 4% Cash Discount = .86

Notice that the Cash Discount % subtracted excludes the 6% Cash Discount that you were allowed to use without justification.

The next step is to divide the 58.5% loss ratio specified on the 1991 filing form, by the result of the above calculation to arrive at your expected loss ratio (ELR). In this example, the ELR = 58.5% ÷ (1 - .1 - .04) = 58.5% ÷ .86 = 68%. The implied loss cost multiplier then is 1 ÷ .68 = 1.471.

If for the upcoming season, your company is filing a 1.667 multiplier, then the percent change to enter on line 7B is (1.667 ÷ 1.470) - 1 = .133, or + 13.3%. The multiplier your company is filing can be found on line 3A, page 2 of the form NDPC200.

For rate filings for the 1994 and future crop seasons, if in the previous year, your company filed a 1.750 multiplier, and for the upcoming season, is filing a 1.667 multiplier, then the percent change to enter on line 7B is (1.667 ÷ 1.750) - 1 = -.047, or - 4.7%.

7 C. Total Rate Change

This is the product of the two rate change components summarized in 7A and 7B. For example, if on line 7A you specified a 7% increase, and on line 7B a 4.7% decrease, then the total rate change to be entered on line 7 C is: (1 + .07) × (1 - .047) - 1 = .02 or 2%.

7D. Effective date of Rate Change

Specify the date on which you wish this filing to take effect. As an example, you may wish to enter "UPON APPROVAL" on this line.

8. Retaliatory Fee

North Dakota does not charge a fee for insurers' filings. However, if an insurer is domiciled in a state that does charge filing fees, then North Dakota charges that insurer a filing fee equal to the fee charged by the state of domicile.

G. Total

This line is the sum of lines A through F. It represents the percent of total premium that is set aside for expenses.

2. Expected Loss Ratio

These lines represent the portion of total premium that is allocated to pay for losses. For example, if in line G you've determined that your company will use 30% of its total premium for expenses, this implies that 1 - .3 = .7 or 70% of your premium has been budgeted to fund losses. This 70% is entered on line 2A, and is the expected loss ratio.

Line 2A represents the Expected Loss Ratio for Townships whose Base Final Average Loss Cost falls in the "Medium" range. Line 2B, which equals line 2A - 5%, represents the Expected Loss Ratio for Townships whose Base FALCs fall in the "Low" range. Line 2C equals Line 2A + 5%, and represents the Expected Loss Ratio for Townships whose Base FALC falls in the "High" range. The Low, Medium and High ranges are defined at the bottom of page 2 of form NDPC200.

3. Company Formula Loss Cost Multiplier (FLCM)

The Formula Loss Cost Multiplier (FLCM) is equal to 1 ÷ ELR. So in the example above, if your expected loss ratio in line 2A is 70%, your FLCM = 1 ÷ .7 = 1.429. If in line 2A your Expected Loss Ratio is 70%, then the Expected Loss Ratio in line 2B would be 65%, and the FLCM for the Low Range FALCs on line 3B would be 1 ÷ .65 = 1.538. Similarly, the FLCM for the High Range FALCs on line 3C would be 1 ÷ .75 = 1.333

Note:
The department has determined that a Company Loss Cost Multiplier on line 3A of less than 1.429 cannot be substantiated, and therefore will not be approved. A Loss Cost Multiplier of 1.429 corresponds to an expense ratio of 30.0%

4. Cash Discount

Indicate the percent discount (if any) your company intends to give as a cash discount. The maximum discount that can be given is 5%. No justification for this cash discount is necessary. For further information, consult the department bulletin.