

## Bulletin 176

### Property and casualty insurance prospective loss cost filing procedures

September 19, 1990

This bulletin specifies the framework under which advisory organizations licensed pursuant to 24-A M.S.R.A. Section 2321-A and participating insurers in advisory organizations will operate in a loss cost system. Under this system, advisory organizations will no longer develop or file 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. Advisory organizations will continue to develop and file rules, relativities and supplementary rating information on behalf of their participating insurers. Insurers which are not advisory organization members or subscribers and which file rates independently will be unaffected by these changes.

Advisory or rating bureaus may initiate loss cost filings during 1990. Under legislation passed and signed into law in 1990 (PL 1989 Ch. 797) rating organizations will be replaced by advisory organizations effective January 1, 1991 for personal lines and January 1, 1992 for commercial lines. After those dates no advisory organization will be permitted to file final rates or make recommendations on expense (other than loss adjustment expense) and profit provisions. These requirements and restrictions apply to all regulated property casualty lines except workers' compensation insurance and employer's liability insurance. As the new law becomes effective for personal and commercial lines, Bureau of Insurance BULLETIN 141 is superseded.

Nothing in these procedures shall be construed to require advisory or rating organizations or their participating insurers to immediately refile rates previously implemented. Any participating insurer or an advisory or 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 advisory organization's prospective loss costs, or modification thereof.

#### DEFINITIONS

For the purposes of this bulletin, the following terms are defined as follows:

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 AND LOSS COSTS

A. Advisory and Rating Organization Action. Advisory and rating organizations will no longer develop or file final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for all lines, except workers' compensation insurance, advisory organizations will develop and file for approval not less than 60 days prior to the proposed effective date with the Insurance Superintendent, in accordance with Section 2304 or Section 2304-A of Title 24-A, 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 Bureau, the advisory organization will provide its participating insurers with a copy of the Reference Filing. If the approved advisory organization loss cost filing differs from that originally filed, the approved loss costs will be provided to participating insurers by the advisory organization.

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

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 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 an advisory 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 using the Reference Filing Adoption Form prescribed in this bulletin. 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 or 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 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 advisory organization's 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 Bureau, and will be effective on or after the effective date of the prospective loss costs. The insurer's expense and profit factor and loss cost modifications remain in effect until refilled. The Superintendent may require that an insurer provide supporting information for the filed expense and profit factors and loss cost modifications.

If an insurer that has filed to have its loss cost adjustments remain on file with the Insurance Bureau

intends to delay, modify, or not adopt a particular advisory organization's Reference Filing, the insurer must make an appropriate filing with the Insurance Bureau.

The expense provisions included in the rates to be used by an insurer must reflect the operating methods of the insurer and its anticipated expenses.

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

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 an advisory organization's Reference Filing and printed in the advisory organization's rating manual, the insurer need not develop or file its final rate pages with the Insurance Superintendent. If an insurer chooses to print and distribute final rate pages for its own use, based solely upon the application of its filed loss cost adjustments to an advisory organization's prospective loss costs, the insurer need not file those rate pages with the Insurance Superintendent. However, the insurer is required to file its "Calculation of Company Loss Cost Multiplier" form. If the advisory organization does not print the loss costs in its manual, the insurer must submit its rates to the Insurance Superintendent.

For future Reference Filings filed by the advisory 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. . . .

the insurer decides to use the revision of the prospective loss costs and effective date as filed . . . .

the insurer does NOT file anything with the Insurance Bureau. 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.

the insurer decides to use the prospective loss costs as filed BUT with a different effective date . . . .

the insurer must notify the Insurance Bureau of its effective date before the effective date of the loss costs.

the insurer decides to use the revision of the prospective loss costs, but wishes to change its loss cost adjustments . . . . the insurer must file a revised Reference Filing Adoption Form before the effective date of the Reference Filing.

the insurer decides NOT to revise its rates using the prospective loss costs. . . . the insurer must notify the Insurance Bureau before the effective date of the loss costs and provide supporting information for its decision.

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. . . .

the insurer decides to use the prospective loss costs to revise its rates. . . . the insurer must file a Reference Filing Adoption Form including its effective date.

the insurer decides NOT to use revisions. . . . the insurer does not file anything with the Insurance Bureau.

During the transition to loss cost advisory filings, the Bureau of Insurance will closely monitor the filing activity of advisory or rating bureau members and subscribers for compliance with Reference Filing Adoption Form filing requirements and adoption of advisory organization loss costs.

## SECTION II. SUPPLEMENTARY RATING INFORMATION

A. Advisory Organization Action. The advisory organization files with the Insurance Bureau, for approval, filings containing a revision of rules and supplementary rating information. These include 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 advisory organization on behalf of those insurers that have authorized the advisory organization to file rules, relativities and supplementary rating information on their behalf.

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

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

If. . . . Then. . . .

the insurer decides to use the revisions and effective date as filed. . . . the insurer does NOT file anything with the Insurance Bureau.

the insurer decides to use the revisions as filed BUT with a different effective date. . . . the insurer must notify the Insurance Bureau of its effective date before the approved advisory organization's effective date.

the insurer decides not to use the revision. . . . the insurer must notify the Insurance Bureau before the advisory organization's effective date.

the insurer decides to use the revision with modifications. . . . the insurer must file the modification with the Insurance Bureau specifying the basis for the modification and the insurer's proposed effective date if different than the effective date filed by the advisory organization.

All inquiries concerning this Bulletin should be addressed to Elaine Thibodeau, Supervisor, Property and Casualty Division or Richard Johnson, Property/Casualty Actuary.

Joseph A. Edwards  
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#### ATTACHMENT 1

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 organization's prospective loss costs. This authorization is effective until disapproved by the Supt., 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.

ATTACHMENT 2

Date:

Insurer Name:

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:

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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.)

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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 %

\*Explain how investment income is taken into account.

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 %

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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.

ATTACHMENT 3

Date:

Insurer Name:

NAIC Number:

EXPENSE CONSTANT SUPPLEMENT{Footnote 1}

{Footnote 1} Replaces items 3- 7 of Attachment 2 when expense constants are utilized. 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.)

Selected Provisions

Overall Variable Fixed

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

\*Explain how investment income is taken into account.

4A. 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:

$[(1.00 / 4B) - (1.00 / 4D)] \times \text{Average Underlying Loss Cost} =$

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 %

NOTE: This bulletin is intended solely for informational purposes. It is not intended to set forth legal rights, duties or privileges nor is it intended to provide legal advice. Readers are encouraged to consult applicable statutes and regulations and to contact the Bureau of Insurance if additional information is needed.