

State of Delaware



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Department of Insurance FORMS AND RATES BULLETIN NO. 5

LOSS COST FILING REQUIREMENTS

Original No. 90-4
Adopted August 6, 1990
Amended April 15, 1992
Amended November 27, 1995

SECTION 1. AUTHORITY:

This bulletin is promulgated under the authority of 18 Del. C., Section 315 and 2501 et. seq.

SECTION 2. PROSPECTIVE LOSS COSTS FILING PROCEDURES:

This bulletin specified the framework under which advisory/rating organization and participating insurers in advisory/rating organization will operate in loss cost system. Under this system, advisory/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. Advisory/rating organizations will continue to develop and file rules, relativity, and supplementary rating information on behalf of their participating insurers.

Any participating insurer of an advisory/rating organization shall adopt the latest loss costs filed on its behalf or makes it own independent filing. All insurers shall comply with this requirement within ninety (90) days from the above amended date.

DEFINITIONS:

- A. "Expenses" means that portion of a rate attribute to acquisition, filed 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 the 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 application rate in effect or to be in effect.

I. RATES/LOSS COSTS:

A. Advisory/Rating Organization Action:

1. Advisory/rating organization will no longer develop or file advisory final rates that contain provisions for expenses (other than loss adjustment expenses) and profit, instead, for all line, advisory/rating organizations will develop and file for approval with the Insurance Commissioner in accordance with Chapter 25 of Title 18 a Reference Filing containing advisory prospective loss costs and supporting actuarial and statistical data.

2. 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.

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

4. The advisory/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.

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

B. INSURER ACTION:

1. 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.

2. If an insurer that is a member, subscriber or service purchaser of an advisory/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 and the combination of the prospective loss costs and the loss cost adjustment contained in the Reference Filing Adoption Form.

3. 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 contained in approved Reference Filings.

4. Insurers may vary expense loads by individual classifications, grouping or subline of insurers. Insurers may use variable or fixed expense loads or a combination of these to establish their expense loadings.

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

6. An insurer may not request to have its loss cost multipliers remain on file and reference all subsequent changes in loss costs. Upon receipt of subsequent approved rating organizations reference filings, the insurer shall file revised rates incorporating an average of the latest three years of expense data. Revised company rates shall become effective ninety (90) days after the prospective loss costs.

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

8. 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. The Insurance Department at any time may withdraw its approval of the use of an insurer's loss cost adjustments if those loss cost adjustments do not comply with Section 2503 of the Delaware Insurance Code.

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

10. 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 cost contained in an advisory/rating organization's Reference Filing and printed in the advisory/rating organization's 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 loss cost adjustments to a advisory/rating organization's prospective loss costs, the insurer need not file those pages with the Insurance Commissioner. If the advisory/rating organization does not print the loss costs in its manual, the insurer must submit its rates to the Insurance Commissioner.

III. SUPPLEMENTARY RATING INFORMATION:

A. Advisory Organization Action:

1. The advisory/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, classifications 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.

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

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

B. Insurer Action:

1. If an insurer has authorized an advisory/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 do anything with the Insurance Department.
2. the insurer decided to 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 advisory/rating organization's effective date.
3. the insurer decides not to use the revisions...	3. the insurer must notify the Insurance Department before the advisory/rating organization's effective date.
4. the insurer decides to use the revision with modifications...	4. the insurer must file the modifications 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 file by the advisory/rating organization.

All inquiries concerning this Directive should be addressed to:

Rating Section
Delaware Insurance Department
841 Silver Lake Boulevard
P.O. Box 7007
Dover, Delaware 19903-1507

FORMS TO FOLLOW:

**1991-1999 COMPILATION BULLETINS
FORMS AND RATES BULLETINS**

DATE: _____

**DELAWARE INSURER RATE FILING ADOPTION
OF RATING ORGANIZATION PROSPECTIVE LOSS COSTS
REFERENCE FILING ADOPTION FORM**

1. INSURER NAME _____
ADDRESS _____
PERSON RESPONSIBLE FOR FILING _____
2. INSURER NAIC# _____
3. LINES OF INSURANCE _____
4. RATING ORGANIZATION _____
5. RATING ORGANIZATION REFERENCE FILING# _____

6. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named rating 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).

Insurer Name: _____

NAIC Number: _____

Date: _____

**DELAWARE INSURER RATE FILING
ADOPTION OF RATING 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.1	Commissions	_____ %
A.2.	Other Acquisitions	_____ %
A.	Total Production Expense (A1 + A2)	_____ %
B.	General Expense	_____ %
C.	Taxes, Licenses & Fees	_____ %
D.	Underwriting Profit	_____ %
E.	Other (explain)	_____ %
F.	TOTAL (A+B+C+D+E)	_____ %
G.	Total Written Premium to Surplus Ratio _____	

4A. Expected Loss Ratio: $ELR = 100\% - 3F =$ _____ %

4B. ELR in decimal form = _____

5. Company Formula Loss Cost Multiplier: $(2B \sim 4B) =$ _____

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

7. Rate level change for the coverage 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.