

WEST VIRGINIA INFORMATIONAL LETTER

NO. 68

MAY 1990

TO: All property and Casualty Companies Licensed
to do Business in the State of West Virginia

The purpose of this Informational Letter is to assist insurers and rating organizations in preparing filings after the adoption of loss cost procedures.

Procedures for insurers submitting independent rate filings remain unchanged. Detailed procedures for insurers submitting Rating Organization Reference Filings are attached. Each Independent Rate & Rule Filing shall continue to comply with PCPI-R-81 and shall be accompanied by Rate Filing Abstract PCA-R-84. Insurers who reference Rating Organization Filings should use new Rate Abstract Form PCA-R-90 to accompany their filing. For rules or rates use PCA-R-84 for Independent Filings and PCA-R-90 for Rating Organization Reference Filings.

The following is a Filing Checklist which you may find useful in assembling your filing:

FILING CHECKLIST

1. 2 copies of cover letter (for each company).
2. Fee (\$25.00 per company, per line of business) (\$25.00 per forms filing, per rules or rates filing).
3. Properly completed Abstract/s.
 - a. For companies who formulate their rates and rules independently, use Rate Abstract Form PCA-R-84.
 - b. For companies who file Rating Organization Reference Filings use new Rate Abstract Form PCA-R-90.

4. Supporting data and/or rationale for filing (filing body);
or Appropriate Forms.
5. Self-addressed stamped envelope.

Please find attached, a copy of the information you will need to prepare a Rating Organization Reference Filing titled, RATING ORGANIZATION AND INSURER FILING PROCEDURES. Also, attached is a copy of the new Rate Abstract Form PCA-R-90 to be used with Loss Cost Adoption Filings and a copy of the current Rate Abstract Form PCA-R-84 to be used with Independent Rate Filings.

In the interest of uniformity, the abstract forms should be reproduced in exact copies, however, they may be reproduced on the front and reverse sides of a single sheet of paper.

Filings not accompanied by the appropriate, properly completed abstracts will be disapproved.

Please direct any inquiries to Jerry W. Gladwell, Director, Rates and Forms Division, telephone 304/348-2094.

RATING ORGANIZATION AND INSURER FILING PROCEDURES

This document 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. The 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 insurers or 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 Form adopting the rating organizations prospective loss costs, or modification thereof.

Section I: Rates/Loss Costs

A) Rating Organization Action

The rating organizations 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 a Reference Filing containing advisory prospective loss costs and supporting actuarial and statistical data. "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.

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.

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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 unique to each insurer.
- If an insurer that is a participating insurer in the 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 Form. The insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Reference Filing Form.
- The insurer may request to have its loss cost adjustments remain on file and reference all subsequent prospective loss costs Reference Filings. Upon receipt of subsequent approved rating organization loss cost Reference Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Reference Filing Form on file with the Insurance Department, and will apply to policies written 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 cost Reference Filing, the insurer must make an appropriate filing with the Insurance Department.
- The insurer's on file loss cost adjustments will remain in effect until the insurer withdraws them or files and receives approval of a revised Reference Filing Form.
- 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 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 cost adjustments to a rating organization's prospective loss costs, the insurer should file those pages with the Commissioner. If the rating organization does not print the loss costs in its rating manual, the insurer must submit its rates to the Commissioner.

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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 prospective loss costs as filed BUT with a different effective date... | 2. the insurer must notify the 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 (PCA-R-90) specifying basis for modification. |
| 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 (PCA-R_90) 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: RULES, RELATIVITIES AND SUPPLEMENTARY RATING INFORMATION

A. Rating Organization Action

The rating organization files with the Insurance Department for approval filings containing a revision of rules, relativities 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.

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, relativities and supplementary rating information.

B. Insurer Action

If an insurer has authorized rating organizations 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 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 make written application to the Insurance Department for approval of its effective date. |
| 3. the insurer decides not to use the revision... | 3. the insurer make written application to the Insurance Department for approval of its non-adoption. |
| 4. the insurer decides to use the revision with modification... | 4. the insurer must file the modification for approval with the Insurance Department, specifying the basis for the modification. |

Date:

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INSURER RATE FILING
ADOPTION OF RATING ORGANIZATION
ADVISORY PROSPECTIVE LOSS COSTS
Reference Filing Form

1. INSURER NAME: _____
ADDRESS: _____
GROUP: _____
2. INSURER NAIC # _____
3. LINE OF INSURANCE _____
4. RATING ORGANIZATION _____
LOST COST REFERENCE FILING # _____

The above insurer hereby declares that it is a participant of the named rating organization. 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 adjustments specified below.

- 5.* LOSS COST ADJUSTMENT MULTIPLIER _____
EXPENSE CONSTANT (if applicable) _____
6. EFFECTIVE DATE _____
7. PRIOR RATE CHANGE _____ %
8. PROPOSED OVERALL CHANGE _____ %
9. ATTACH "SUMMARY OF SUPPORTING INFORMATION."
10. -The insurer hereby requests that its loss costs adjustment be applicable to future revisions of the rating organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the rating organizations loss costs and the insurers loss cost adjustments. The rates will apply to policies written on or after the effective date of the rating organization's prospective loss costs. This authorization is effective until amended or withdrawn by the insurer, except for Loss Cost Modifications are renewable annually.
11. ATTACH FILING FEE OF \$25.00.

* See item 3 of "Summary of Supporting Information" (attached) for definitions.

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

1. INSURER LOSS COST MODIFICATION

_____ The above insurer hereby files to adopt the prospective loss costs in the captioned Reference Filing without modification.

_____ The above insurer hereby files to adopt the prospective loss costs in the captioned Reference Document with the following modification(s). (Cite nature and percent deviation, and attach supporting data and/or rationale for the deviation).

2. INSURER EXPENSE COMPONENT (Attach exhibit detailing insurer expense data/and or other supporting information.) (Use separate sheets if more than one set of expenses is to be used.)

| | |
|--|-------------|
| a) Total Production Expense | _____ % |
| b) General Expense | _____ % |
| c) Taxes, Licenses & Fees | _____ % |
| d) Underwriting Profit and Contingencies | _____ % |
| e) Miscellaneous | _____ % |
| f) Investment Income | (_____) % |
| g) TOTAL | _____ % |

3. INSURER LOSS COST ADJUSTMENT MULTIPLIER (combination of Insurer Loss Cost Modification (1. above) and Insurer Expense Component (2. above). Attach separate sheets if needed.

4. INSURER EXPENSE CONSTANT (if applicable) _____
(Attach separate sheets if needed.)

5. Signature _____

Name (Print) _____

Title _____

Company _____

Address _____

Telephone _____

* If the information is not available and the proposed adjustments are based on other than the above information, explain basis for development of adjustments.

RATE FILING ABSTRACT

INSTRUCTIONS: All questions must be answered; if the answer is "none" or "not applicable," so state. Use a separate abstract for each coverage affected by this filing. Companies filing as a group must use a consolidated abstract if the rates are identical. Rating organizations must use a consolidated abstract showing the combined data for all companies on behalf of which the filing is being made, along with a list of these companies. If this is a combination Rate and Form Filing, the Form Filing Abstract (Form PCA-F) must also be completed.

1. Date filed: _____ Proposed effective date: _____

2. a) Company Name(s): _____

- b) Part of group: _____

3. a) Class/Coverage affected by filing _____
- b) Term of policy to be written _____
- c) Is this coverage written on a claims-made or occurrence basis?
Claims-Made _____ Occurrence _____
- d) Company written premium (latest calendar year) for 3(a)
West Virginia _____ Countrywide _____

4. a) Name of rating organization, if any: _____
- b) Affiliation status for 3(a): _____
- c) Is this a deviation filing ? _____
 - 1) Current deviation amount: _____
 - 2) Proposed deviation amount: _____
 - 3) Amount of change due to deviation change: _____

5. If this is a reference filing to a rating organization (or company), provide the following information:
 - a) Name of rating organization: _____
 - b) Date of rating organization filing: _____
 - c) Filing designation and Name: _____
 - d) Approved in West Virginia for use effective (date): _____

6. List all rate level changes for the last five years for the class/coverage affected by this filing:

| <u>Effective Date</u> | <u>Individual Coverages</u> | <u>All Coverages Combined</u> |
|-----------------------|-----------------------------|-------------------------------|
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |

7. Number of West Virginia policies in force in each of the last five years:

| | <u># of Policies</u> | <u>% Change</u> |
|---------------------|----------------------|-----------------|
| 5th Prior Year 19__ | _____ | _____ |
| 4th Prior Year 19__ | _____ | _____ |
| 3rd Prior Year 19__ | _____ | _____ |
| 2nd Prior Year 19__ | _____ | _____ |
| 1st Prior Year 19__ | _____ | _____ |

8. a) Estimated premium effect of the filing:

| <u>Coverage</u> | <u>Annual Written Premium</u> | <u>% Change Requested</u> | <u>Annual Addt'l Premium</u> |
|-----------------|-------------------------------|---------------------------|------------------------------|
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |

b) Components of proposed rate level change(s):

| <u>Coverage</u> | <u>Indicated Rate Level Change(s)</u> | <u>Proposed Rate Level Change(s)</u> | <u>Components of Proposed Rate Level Change(s)</u> | | | |
|-----------------|---------------------------------------|--------------------------------------|--|-------------|-------------|-------------|
| | | | <u>(A) Basic Rate Change</u> | <u>(B)*</u> | <u>(C)*</u> | <u>(D)*</u> |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |

*Examples of some components are classification changes, increased limit changes, deductible changes, age and symbol changes, policy form changes, and other manual rate changes.

9. Provide the following information for the coverage stated in 3(a):

West Virginia

| | <u>Earned Premium</u> (000) | <u>Incurred Losses</u> (000) | <u>Change In IBNR</u> (000) | <u>Loss Ratio</u> (000) |
|-----------------------|------------------------------------|-------------------------------------|------------------------------------|--------------------------------|
| 5th Prior Year 19____ | _____ | _____ | _____ | _____ |
| 4th Prior Year 19____ | _____ | _____ | _____ | _____ |
| 3rd Prior Year 19____ | _____ | _____ | _____ | _____ |
| 2nd Prior Year 19____ | _____ | _____ | _____ | _____ |
| 1st Prior Year 19____ | _____ | _____ | _____ | _____ |
| ____ Months 19____ | _____ | _____ | _____ | _____ |
| TOTAL | | | | |

Countrywide

| | <u>Earned Premium</u> (000) | <u>Incurred Losses</u> (000) | <u>Change In IBNR</u> (000) | <u>Loss Ratio</u> (000) |
|-----------------------|------------------------------------|-------------------------------------|------------------------------------|--------------------------------|
| 5th Prior Year 19____ | _____ | _____ | _____ | _____ |
| 4th Prior Year 19____ | _____ | _____ | _____ | _____ |
| 3rd Prior Year 19____ | _____ | _____ | _____ | _____ |
| 2nd Prior Year 19____ | _____ | _____ | _____ | _____ |
| 1st Prior Year 19____ | _____ | _____ | _____ | _____ |
| ____ Months 19____ | _____ | _____ | _____ | _____ |
| TOTAL | | | | |

10. Ratemaking Methodology (include exhibits)

- a) Show Loss Development and Loss Adjustment Expenses.
- b) Fully explain trending and methods used.
- c) How is the credibility of the data that is used considered in your ratemaking process?
- d) What is your Permissible Loss Ratio? How was this value chosen?
- e) How is your Indicated Rate Level Adjustment arrived at?
- f) How is Investment Income considered when a final Rate Level Adjustment is selected?
- g) Provide an Actuarial Memorandum showing all of the above.

11. Provide a summary of the developed data and experience in 10 above as follows:

| | Current Level Earned <u>Premiums</u> | Trended Developed Incurred <u>Losses</u> | Loss <u>Ratio</u> |
|---------------------|---|---|----------------------|
| 5th Prior Year 19__ | _____ | _____ | _____ |
| 4th Prior Year 19__ | _____ | _____ | _____ |
| 3rd Prior Year 19__ | _____ | _____ | _____ |
| 2nd Prior Year 19__ | _____ | _____ | _____ |
| 1st Prior Year 19__ | _____ | _____ | _____ |
| TOTAL | _____ | _____ | _____ |

12. Business Expense Provisions that are used to determine a Permissible Loss Ratio.

| | |
|---|---------|
| Commission and Brokerage | _____ % |
| New Acquisition | _____ |
| General | _____ |
| Taxes, Licenses, Fees, etc. | _____ |
| Other | _____ |
| Profit and Contingencies | _____ |
| TOTAL EXPENSES | _____ |
| Pure Permissible Loss Ratio | _____ |
| Loss Adjustment Expenses | _____ |
| Allocated | _____ |
| Unallocated | _____ |
| TOTAL PERMISSIBLE LOSS AND LOSS ADJUSTMENT EXPENSE RATIO | |

13. Insurance Expense Exhibit. Incurred Ratios (%) on a written premium basis for coverage in 3(a) above:

| | Percent Annual | | | | | Combined Average |
|---------------------------------------|----------------|-------|-------|-------|-------|---------------------|
| | 19__ | 19__ | 19__ | 19__ | 19__ | |
| a) Commission and Brokerage | _____ | _____ | _____ | _____ | _____ | _____ |
| b) New Acquisition | _____ | _____ | _____ | _____ | _____ | _____ |
| c) General | _____ | _____ | _____ | _____ | _____ | _____ |
| d) Taxes, etc. | _____ | _____ | _____ | _____ | _____ | _____ |
| e) SUBTOTAL (a) + (b) + (c) + (d) | _____ | _____ | _____ | _____ | _____ | _____ |
| f) West Virginia Loss Ratio (Ques. 9) | _____ | _____ | _____ | _____ | _____ | _____ |
| g) Combined Ratio (e) + (f) | _____ | _____ | _____ | _____ | _____ | _____ |
| h) Investment Gain/(Loss) | _____ | _____ | _____ | _____ | _____ | _____ |

14. Has this proposed premium rate adjustment filing been submitted to any other state insurance departments? If "yes," give specific information as to which states, when filed, each state's proportionate share of the total annual written premium for this particular policy/contract, the status of said filing in each state, and any other pertinent information which may be helpful in our review. Please attach additional sheets if more space is needed.

15. The above information is correct to the best of my knowledge and belief.

Signed _____

Title _____