THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE
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TIMOTHY H. GAILEY
COMMISSIONER OF INSURANCE

December 27,1990

SRB BULLETIN 90-05

TO: ALL COMPANIES LICENSED IN THE COMMONWEALTH OF MASSACHUSETTS TO WRITE PROPERTY AND CASUALTY INSURANCE

FROM: Timothy H. Gailey, Commissioner of Insurance THG

RE: INSURANCE RATING ORGANIZATIONS: IMPLEMENTATION OF LOSS COSTS FILING PROCEDURES

The enclosed document specifies the framework under which rating organizations and insurers participating in such organizations may operate in Massachusetts in a loss cost system. This bulletin discusses rates, rating rules, relativities and supplementary rating information for all property and casualty lines of insurance except:

1. Automobile Insurance - private passenger
2. Workers' compensation insurance.
3. Residual markets.

Pursuant to the provisions of M.G.L. Chapters 174A and 175A and the framework specified in this document, rating organizations may elect to no longer develop or file advisory final rates. Instead they may develop and file advisory prospective loss costs and supporting actuarial and statistical data. It will be incumbent on each individual insurer using advisory loss costs or other supporting actuarial and statictical data to determine and file the rates it will use. Rating organizations may continue to develop and file rules, relativities and supplementary rating information on behalf of their participating insurers.

Nothing in the enclosed document should be construed to require rating organizations or their participating insurers to refile rates previously implemented, or, to implement prospective loss cost rating methodology. Any participating insurer is authorized to continue to use all rates and deviations filed for its use until (1) they are disapproved or expire; or (2) an insurer makes its own filing to change its rates by (a) making an independent filing, (b) filing a reference filing adoption form adopting a rating

organization's prospective loss costs, or modification thereto, or (c) adopting a rating organization's approved set of final rates, or filing to deviate from these rates.

Very truly yours,

Timothy H. Gailey
Commissioner of Insurance

Enclosure

COMMONWEALTH OF MASSACHUSETTS - DIVISION OF INSURANCE
BULLETIN SRB 90-05

PROPERTY AND CASUALTY INSURANCE - FILING PROCEDURES RATES, RATING RULES, RELATIVITIES AND SUPPLEMENTARY RATING INFORMATION

The following procedures and guidelines apply only to those property and casualty rate, rating rule and supplementary rating information filings which adopt the prospective loss costs methodology and which are submitted to the Massachusetts Insurance Division, with the exception of private passenger automobile insurance, workers compensation insurance, and residual markets insurance.

For definitions of various terms used in this bulletin, refer to Section V. on pages 4-5 of this bulletin.

I. EFFECTIVE DATE OF Bulletin SRB-90-05

This Bulletin shall be effective as of March 1, 1991 for all property and casualty insurance filings subject to this bulletin.

II. RATES/LOSS COSTS

A. Rating Organization Action

For all lines of insurance to which this bulletin applies, rating organizations may develop and file with the Commissioner of Insurance a reference filing containing advisory prospective loss costs and the supporting actuarial and statistical information for any calculations or assumptions underlying such loss costs.

Such a reference filing shall be filed, reviewed and become effective in accordance with Massachusetts General Laws applicable to rate filings and the requirements of this bulletin but shall not be submitted on behalf of the rating organization's participating insurers.

Each rating organization will submit to the Commissioner a list of its members, subscribers and service purchasers that are authorized to reference the rating organization's loss cost filings for each line of insurance. This list will be updated by the rating organization from time to time, as necessary.

The rating organization may print and distribute manuals of prospective loss costs, as well as rules and other supplementary rating information as described in other sections of this bulletin.

B. Insurer Filing Procedures

Each insurer must determine the final rates it will file with the Commissioner and the effective date of any rate changes it proposes. Such filings will be made in accordance with the following procedures:

1. Following a Rating Organization's Reference Filing, if an insurer elects to use the prospective loss costs to revise its rates, then the insurer must file a Reference Filing Adoption Form with the Commissioner, including its effective date, and the rating organization's reference filing number.

2. Additionally, an explanatory memorandum should highlight and explain any other changes being proposed, such as independent rules, rating plans, etc.

3. The insurer's filed loss costs adjustments, once effective, will remain in effect until revised loss cost adjustments become effective, or it is determined that such adjustments do not comply with Chapter 174A or Chapter 175A. When the rating organization files and receives an effective date for a prospective loss cost filing and the insurer wishes to adopt these loss costs, the insurer must make an updated loss cost adjustments filing.

4. If the insurer elects not to use the rating organization's loss costs filing, then the insurer does not file anything with the Commissioner, and can continue to use all rates and deviations filed for its use until they are disapproved or expire.

C. Insurer Final Rates and Minimum Premiums

To the extent that an insurer's final rates are determined solely by applying its loss cost adjustments to the prospective loss costs contained in a rating organization's reference filing and printed in the rating organization's manual, the insurer need not develop or file its final rate pages with the Commissioner. If the rating organization does not print the loss costs in its manual, the insurer must submit its rates to the Commissioner.

If an insurer wishes to use minimum premiums, it must file the derivations for minimum premiums, any supporting information, and the minimum premium rules it proposes to use. An insurer may also file to affirm continued use of the minimum premiums and minimum premium rules currently filed on its behalf by a rating organization. Subsequent changes to minimum premiums or minimum premium rules must be filed and supported by the insurer.

III. RULES, RELATIVITIES AND SUPPLEMENTARY RATING INFORMATION

A. Rating Organization Action

A rating organization may submit to the Commissioner any filing which contains revisions to rules, relativities and supplementary rating information, including revisions to policy writing rules, rating plans, classification codes and descriptions, territory codes and descriptions, and rules which include factors or relativities and any other similar factors.

Filings made by the rating organization which include the above are made on behalf of those insurers which have authorized the rating organization to file such rules, relativities and other supplementary rating information on their behalf.

The rating organization shall submit to the Commissioner a list of all insurers who have given the rating organization the authority to file on their behalf. Such list shall be updated periodically by the rating organization.

Rating organizations may print and distribute manuals of rules, relativities, and other supplementary rating information.

B. Insurer Filing Procedures

If an insurer has authorized a rating organization to file on its behalf as above, and, a new filing of rules, relativities or other supplementary rating information is made by the rating organization, insurers shall file according to the following procedures:

1. If the insurer decides to use the revisions and the effective date as filed, then the insurer does not file anything with the Commissioner.

2. If the insurer decides to use the revisions as filed but with a different effective date, the insurer must notify Commissioner of its effective date before the rating organization's effective date.

3. If the insurer elects not to use the revision, the insurer must notify the Commissioner before the rating organization's effective date.

4. If the insurer elects to use the revision with modification, the insurer must file the modification with the Commissioner, specifying the basis for the modification.

IV. DOCUMENTATION OF FILINGS -SUPPORTING INFORMATION

Submissions made by insurers referencing rating organization loss cost filings as outlined in this Bulletin require the inclusion in the insurer's filing of a Reference Filing Adoption Form. Notwithstanding the inclusion of this form in an insurer's rate filing,the insurer is not relieved of submitting other detailed supporting information when requested to do so by the Commissioner.

The following generally are the types of additional supporting information which will be required of insurers:

1. Actual insurer expenses for Massachusetts, if available, or countrywide expenses for each of the latest three years, as filed in the company Insurance Expense Exhibit for the line of insurance to which the filing applies. The three year average must also be shown. The data should be shown separately for each category of expenses.

2. The proposed expense components, with an explanation as to why they have been selected.

3. Unless the rating organization specifies a rule in the appropriate manual for the calculation of rates, the insurer must explain how it calculates its rates.

4. The rates may contain an allowance permitting a loading for underwriting profit. In determining such a loading, the total return on equity or net worth will be the measure of reasonableness. All underwriting profit determination must detail the total return on equity or net worth and how this follows from the underwriting profit loading.

V. DEFINITIONS

"Loss Trending" means any procedure for projecting developed losses from the experience period to the average date of loss for the period during which the policies are to be effective.

"Rating organization" means an organization licensed pursuant to Section 8 of Chapter 174A of the Massachusetts General Laws.

"Expenses" means that portion of a rate attributable to commissions and brokerage, other acquisition expenses, general expenses, and taxes, licenses, and fees.

"Underwriting Profit" means that portion of a rate, that when considered with investment and other income, provides an appropriate total return on equity or net worth.

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

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

"Supplementary Rating Information" includes any manual or plan of rates, classification, rating schedule, policy fees, rating rule, rate-related underwriting rule, experience rating plan, schedule rating plan, expense modification plan, statistical plan, and any other similar information needed to determine the applicable rate in effect or to be in effect. Supplementary rating information also includes factors and relativities, such as increased limits factors, classification relativities, deductible relativities or similar factors.

"Supporting Information" includes (1) any data relied upon by the filer, (2) the interpretation of any data relied upon by the filer and (3) descriptions of methods and judgements used, and (4) any other additional information required to be filed by the Commissioner.

"Loss Cost adjustment" means a multiplicative and/or additive factor that, when applied to rating organization's prospective loss costs, produces an insurer's manual rate. Loss cost adjustments reflect any modification of the rating organization's prospective loss costs made by an insurer, and an insurer's expense and profit provisions.

COMMONWEALTH OF MASSACHUSETTS

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

PROPOSED EFFECTIVE DATE: _____

1. INSURER NAME / ADDRESS: _____

_____

_____

PERSON RESPONSIBLE FOR FILING: _____
TITLE _____ TELEPHONE # _____

2. INSURER NAIC NUMBER: GROUP # _____ COMPANY # _____

3. LINE/SUBLINE 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 business. The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss costs in the captioned Reference Filing.

7. PROPOSED RATE LEVEL CHANGE: _____ % EFFECTIVE DATE _____

8. LAST RATE LEVEL CHANGE: _____ % EFFECTIVE DATE _____

9. Loss Costs Adopted:

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

   _____ Without modification, (enter a factor of 1.000 on line 9B below).

   _____ 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: _____

*EXAMPLES: If your company's loss cost modification is: -10%, show a factor of .90, i.e. (l.00 -.10). If it is +15%, show a factor of 1.15, i.e. (1.00 + .15).

Note: IF A FIXED EXPENSE APPROACH IS USED, DO NOT COMPLETE ITEMS 10-13 BELOW. INSTEAD ATTACH DOCUMENTATION DETAILING FINAL RATE DETERMINATION.

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

		Selected Provisions
A.	Commissions	_____ %
B.	Other Acquisition Expense	_____ %
C.	General Expense	_____ %
D.	Taxes, Licenses & Fees	_____ %
E.	Underwriting Profit	_____ %
F.	Other (explain) _____	_____ %
G.	TOTAL	_____ %

11. Expected Loss Ratio (decimal form) = [1.0 -10G] = _____

12. Indicated Company Loss Cost Multiplier (9B)/(11) = _____

13. Company Selected Loss Cost Multiplier = _____

** Explain on next page if different from Item 12.

ADDITIONAL COMMENTS/DOCUMENTATION