

VERMONT LOSS COST BULLETIN

June 29, 1990

SECTION 1. RATE SERVICE ORGANIZATION AND
INSURER FILING PROCEDURES

This document specifies the framework under which Rate Service Organizations and participating insurers in Rate Service Organizations will operate under loss cost filing procedures. Under this system, a Rate Service Organization will no longer develop or file final rates but instead will develop and file advisory prospective loss costs, supporting actuarial information, 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. Rate service 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 rate service organizations or their participating insurers to immediately refile rates previously implemented. Any participating insurer of rate service organizations is authorized to continue to use all rates and deviations filed for its use until disapproved, or it files to replace its rates.

SECTION 2. DEFINITIONS

(A) "Rate Service Organization" means an organization licensed pursuant to Title 8 Section 4690.

(B) "Expenses" means that portion of a rate attributable to acquisition, field supervision and collection expenses, general expenses, and taxes, licenses, and fees.

(C) "Prospective loss costs" is 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.

(D) "Rate" means the cost per unit of exposure, whether expressed as a single number or as a prospective loss cost and an adjustment to account for the treatment of expenses, profit and variations in loss

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experience, prior to any application of individual risk variations based upon loss or expenses considerations, and does not include minimum premiums.

(E) "Supplementary rating information" has the same meaning as defined in Title 8 Section 4683 (17)

(F) "Supporting information" has the same meaning as defined in Title 8 Section 4683 (18)

SECTION 3. RATES/LOSS COSTS

A) Rate Service Organization Action

Rate Service Organizations will file with the Insurance Department filings containing a revision of loss costs, rules, or supplementary rating information. These filings may include policy-writing rules, rating plans, classification codes and descriptions, territory codes and descriptions and rules which include factors or relativities or similar factors but excludes minimum premiums and other rates.

Rate Service Organizations will file supplementary rating information, rules, and relativities on behalf of those insurers that have authorized the Rate Service Organization to make such filings. They may also print and distribute loss costs, manuals of rules and supplementary rating information excluding minimum premiums.

Loss Cost Filings will contain the advisory prospective loss costs, underlying loss data, other supporting information, and assumptions underlying those loss costs. The Rate Service Organization will provide its participating insurers with a copy of the Prospective Loss Cost Filing.

Special Note: These "use and file" procedures will be used for all filings described in this section, except for submissions in a "noncompetitive market" (as defined in Title 8, Section 4683 (10) where these filings will be made in advance for approval.

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 unique to each insurer.

If an insurer decides to use the prospective loss costs in a Rate Service Organization Loss Cost Filing in support of its own filing, it

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should make a filing using the Reference Filing Adoption Forms attached to this Bulletin. The insurer's rates must be the combination of the prospective loss costs and the loss costs adjustments contained in the Reference Filing Adoption Form.

The insurer may request to have its loss cost adjustments remain on file and apply to all subsequent prospective Loss Costs Filings. Upon receipt of a subsequent Rate Service Organization loss cost Filing, the insurer's rates will be the combination of the prospective loss costs and the loss costs adjustments contained in the insurer's Reference Filing Adoption Form on file with the Insurance Department.

The insurer's filed loss cost adjustments and/or rates will remain in effect until the insurer withdraws them, files new loss cost adjustments and/or rates, or the loss cost adjustments and/or rates are disapproved.

If the insurer has requested to have its loss costs adjustments remain on file and apply to all subsequent prospective Loss Costs Filings; and,

If. . .

1. the insurer decides to use the revisions and effective date as filed. . .

2. the insurer decides to use the revisions as filed but with a different effective date. . .

3. the insurer decides to use the revision of the prospective loss costs, but wishes to change its loss costs adjustments. . .

4. the insurer decides not to revise its rates using the prospective loss costs. . .

5. the insurer wishes to use minimum premiums. . .

Then. . .

1. the insurer does not file anything with the Insurance Department.

2. the insurer must notify the Insurance Department of its effective date before the Rate Service Organization's effective date.

3. the insurer must file a revised Reference Filing Adoption Form.

4. the insurer must file with the Insurance Department a letter advising that it will not be using the prospective loss costs. This must be done prior to the effective date in the loss cost document.

5. it must file the minimum premiums. It may continue to use minimum premiums it has on file.

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If an insurer has not elected to allow its loss cost adjustments to remain on file, applicable to future prospective loss costs reference filings, and a new loss costs reference filing is filed, 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 including its effective date.
2. the insurer decides not to use the revisions. . .	2. the insurer does not file anything with the Insurance Department.

Notes: (a) These “use and file” procedures will be used for all filings described in this section, except for submissions in a “non-competitive market” (as defined in Title 8, Section 4683(10)) where these filings will be made in advance for approval.

(b) All filings are subject to Vermont’s Microfiche Regulation and must be accompanied by a filing fee of \$20.00.

(c) To the extent that the insurer’s rates are determined solely by applying its loss costs adjustments to the prospective loss costs contained in the Rate Service Organization’s filing, and the insurer does not develop and print rate pages, the insurer shall not be required to file its final rates with the Insurance Department. If the insurer decides to develop and print final rates for its own use by applying loss cost adjustments to the Rate Service Organization’s prospective loss costs, then it shall also file the rate pages with the Insurance Department.

SECTION 4. RULES, RELATIVITIES AND SUPPLEMENTARY RATING INFORMATION

A. Rate Service Organization Action

Rate service organizations will continue to file revisions 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 limit factors, classification relativities or similar factors but not to include minimum premiums.

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Rate Service Organizations will make filings on behalf of those insurers that have authorized the rate service organization to file rules, relativities and supplementary rating information on their behalf.

B. Insurer Action

If an insurer has authorized a rate service organization to file rules, relativities, and supplementary information on its behalf and

If. . .	Then. . .
1. the insurer decides to use the revisions and effective date as filed. . .	1. the insurer does not file 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 notify the Insurance Department not later than 15 days after the Rate Service Organization's effective date by filing a letter and attaching a manual-size page specifying this action and giving the effective date selected by the insurer.
3. the insurer decides not to use the revision. . .	3. the insurer must notify the Insurance Department no later than 15 days after the Rate Service Organization's effective date by filing a letter and attaching a manual-size page specifying this action and clearly identifying the rules and/or supplementary rate information the insurer is continuing to use.
4. the insurer decides to use the revision with modification. . .	4. the insurer must file the modifications with the Insurance Department no later than 15 days after the Rate Service Organization's effective date clearly identifying the modification being made and attach a manual-size exception page showing the specific change.

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- Notes: (a) These “use and file” procedures will be used for all filings described in this section, except for submissions in a “non-competitive market” (as defined in Title 8, Section 4683 (10)), where these filings will be made in advance for approval.
- (b) All filings are subject to Vermont’s Microfiche Regulation and must be accompanied by a filing fee of \$20.00.

Jeffrey P. Johnson
COMMISSIONER OF BANKING AND INSURANCE

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Date: _____

INSURER RATE FILING ADOPTION OF RATE SERVICE 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. RATE SERVICE ORGANIZATION _____

5. RATE SERVICE ORGANIZATION REFERENCE
FILING # _____

6. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named rate service 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 costs 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 rate service organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the rate service 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 rate service organization's prospective loss costs. This authorization is effective until disapproved by the Commissioner, 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 Rate Service Organization Reference Filing.

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**INSURER RATE FILING ADOPTION OF RATE SERVICE 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:

- Without modification. (factor = 1.000)
- With the following modification(s). (Cite the nature and percent of the 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. Total Production Expense	_____ %
B. General Expense	_____ %
C. Taxes, Licenses & Fees	_____ %
D. Underwriting Profit & Contingencies	_____ %
E. Other (explain)	_____ %
F. TOTAL	_____ %
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 =	_____

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Explain any differences between 5 and 6:

7. Rate level change for the coverages 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.

Insurer Name: _____ Date: _____

NAIC Number: _____

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**EXPENSE CONSTANT SUPPLEMENT
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
Fixed			
A. Total Production Expense	_____	_____	_____
B. General Expense	_____	_____	_____
C. Taxes, Licenses & Fees	_____	_____	_____
D. Underwriting Profit & Contingencies	_____	_____	_____
E. Other (explain)	_____	_____	_____
F. TOTAL	_____	_____	_____
4.A. Expected Loss Ratio: $ELR=100\% - \text{Overall } 3F=$	_____		
B. ELR expressed in decimal form =	_____		
C. Variable Expected Loss Ratio		_____	
$VELR=100\% - \text{Variable } 3 F=$		_____	
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			_____