

***POLICY AND PROCEDURE
REGARDING
PROSPECTIVE LOSS COSTS FILING***

***Prepared by
The Kansas Insurance Department
February 15, 2005***



Policy and Procedure
Regarding Prospective Loss Costs Filings
February 15, 2005

This Policy and Procedure is an adaptation of the March 20, 1990 Edition of the National Association of Insurance Commissioners Prospective Loss Costs Filing Procedures and Reference Filing forms entitled "Insurer Rate Filing Adoption of Rating Organization Prospective Loss Costs Reference Filing Adoption Form" and "Insurer Rate Filing Adoption of Rating Organization Prospective Loss Costs Summary of Supporting Information Form."

Insurer Name: _____ Date: _____

NAIC Number: _____

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
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% - Overall 3F = _____

B. ELR expressed in decimal form = _____

C. Variable Expected Loss Ratio

VELR=110% - Variable 3F = _____

D. VELR in decimal form = _____

5. Formula Expense Constant:

[(1.00 * 4B) - (1.00 * 4D)]

x Average Underlying Loss Cost = _____

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

_____ %

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

Space Reserved for Insurance Department Use

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Date: _____

1. INSURER
NAME _____
ADDRESS _____

PERSON RESPONSIBLE FOR FILING:

TITLE _____ TELEPHONE# _____

2. INSURER NAIC # _____
3. LINE OF INSURANCE _____
4. RATING ORGANIZATION _____
5. RATING ORGANIZATION REFERENCE FILING # _____

6. The above insurer hereby declares that is 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

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 rating organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the rating 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 rating 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 Rating Organization Reference Filing.

Insurer Name: _____ Date: _____

NAIC Number: _____

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. Total Production Expense	_____ %
B. General Expense	_____ %
C. Taxes, Licenses & Fees	_____ %
D. Underwriting Profit & Contingencies	_____ %
E. Other (explain)	_____ %
F. TOTAL	_____ %

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

B. 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: _____ %

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.

APPENDIX

SAMPLE LOSS COST BULLETIN

March 20, 1990

PROSPECTIVE LOSS COSTS FILING PROCEDURES

This bulletin specifies the framework under which advisory/rating organizations and participating insurer in advisory/rating organizations will operate in a 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, relativities and supplementary rating information on behalf of their participating insurers.

Nothing in these procedures shall be construed to require advisory/rating organizations or their participating insurer to immediately refile rates previously implemented. Any participating insurer of a advisory/rating organization is authorized to continue to use all rates and deviations files 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/rating organization's prospective loss costs, or modification thereof.

DEFINITIONS

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 premiums, 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/LOSS COSTS

A) Advisory/Rating Organization Action

Advisory/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, advisory/rating organizations will develop and file for approval with the Insurance Commissioner in accordance with [relevant statutory provisions], 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 Department and approved, the advisory/rating organization will provide its participating insurers with a copy of the approved Reference Filing.

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.

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 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.

If an insurer that is a member, subscriber or service purchaser of a 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 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 of 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, for approval, the minimum premiums it proposes to use.

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 advisory/rating 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 Department, and will be effective 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 advisory/rating organization's Reference Filing, the insurer must make an appropriate filing with the Insurance Department.

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.

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

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 advisory/rating organization's Reference Filing and printed in the advisory/rating organization's rating 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 filed 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.

For future Reference Filings filed by the advisory/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 the prospective loss costs as filed BUT with a different effective date...	2. The insurer must notify 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 before the effective date of the Reference Filing.
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 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: SUPPLEMENTARY RATING INFORMATION

A) Advisory Organization Action

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, 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/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.

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

B) Insurer Action

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

If...	Then...
1. The insurer decides to use the revisions and effective dates 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 of its effective date before the approved advisory/rating organization's effective date.
3. The insurer decides not to use the revision...	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 modification 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 filed by the advisory/rating organization.

All inquiries concerning this Directive should be addressed to

[Name of Commissioner]
COMMISSIONER OF INSURANCE
STATE OF [Name of State]