

Bulletin 91-1

Prospective Loss Costs Filing Procedures

Ohio

This bulletin specifies the framework under which rating bureaus and participating insurers in rating bureaus will operate in a loss cost system in the State of Ohio. Under this system, rating bureaus will no longer develop or file final rates but instead will develop and file, for review or 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. Rating bureaus 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 bureaus or their participating insurers to immediately refile rates previously implemented. Any participating insurer of a rating bureau is authorized to continue to use all rates and deviations reviewed or 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 Loss Cost Filing Adoption Form adopting the rating bureau'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) "Participating insurers" means a member or a subscriber to a rating bureau. It also includes any insurer which files by reference a loss cost filing made by a rating bureau.

- F) "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.
- G) "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 applicable rate in effect or to be in effect.

Section I: Rates/Loss Costs

A) Rating Bureau Action

- Rating bureaus will no longer develop or file final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for all lines, rating bureaus will develop and file for review or approval with the Ohio Department of Insurance in accordance with ORC 3935.04 or 3937.03, a Loss Cost Filing containing advisory prospective loss costs and supporting actuarial and statistical data.
- Loss Cost 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 Loss Cost Filing has been filed with the Insurance Department and reviewed or approved, the rating bureau will provide its members or subscribers with a copy of the Filing.
- The rating bureau 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 Cost Filing, rating bureaus will no longer develop or file any minimum premiums.

B) Insurer Action

- Each insurer must individually determine the final rates it will file for review or 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 a participating insurer of a rating bureau decides to use the prospective loss costs in the Loss Cost Filing in support of its own filing, the insurer shall make a filing for review or approval using the Loss Cost Filing Adoption Form. The insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Loss Cost Filing Adoption Form.
- Insurers may file modifications of the prospective loss costs in the reviewed or approved Loss Cost 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 Loss Cost Filing. Also, supporting information will be required if an insurer has significant Ohio written premium or if a significant change is being made in rate levels.
- 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 the minimum premiums it proposes to use.
- The insurer may request to have its loss costs adjustments remain on file and reference all prospective Loss Cost Filings. Upon receipt of subsequent approved rating bureau's Loss Cost Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Loss Cost Filing Adoption Form on file with the Insurance Department, and will be effective on 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 bureau's Loss Cost Filing, the insurer must make an appropriate filing with the Insurance Department.
- The insurer's filed loss cost adjustments will remain in effect until disapproved or the insurer withdraws them or files for review or approval of a revised Loss Cost 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 Loss Cost Filing Adoption Form, to the prospective loss costs contained in a rating bureau's Loss Cost Filing and printed in the rating bureau's rating manual, the insurer need not develop or file final rate pages with the Insurance Commissioner. If an insurer chooses to print and distribute final rate pages, based upon the application of its filed loss costs, the insurer will need to file those pages with the Department. If the rating bureau does not print the loss costs in its manual, the insurer must submit its rates to the Department.

For Future Loss Cost Filings filed by the rating bureaus:

- If the participating insurer HAS filed to have its loss cost adjustments applicable to subsequent Loss Cost Filings, and a new Loss Cost Filing is filed and

If....

Then....

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. the insurer decides to use the revision of the prospective loss costs and effective date as filed... | <ol style="list-style-type: none"> 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 Cost Filing. |
| <ol style="list-style-type: none"> 2. the insurer decides to use the prospective loss costs as filed BUT with a different effective date... | <ol style="list-style-type: none"> 2. the insurer must notify the Insurance Department of its effective date before the effective date of the Loss Cost Filing. |
| <ol style="list-style-type: none"> 3. the insurer decides to use the revision of the prospective loss costs, but wishes to change its loss cost adjustments... | <ol style="list-style-type: none"> 3. the insurer must file for review or approval a revised Loss Cost Filing Adoption Form before the effective date of the Loss Cost Filing. |
| <ol style="list-style-type: none"> 4. the insurer decides NOT to revise its rates using the prospective loss costs... | <ol style="list-style-type: none"> 4. the insurer must notify the Insurance Department before the effective date of the Loss Cost Filing. |

- If an insurer has NOT elected to have its filed loss cost adjustments applicable to future loss cost filings, and a new Loss Cost Filing is reviewed or approved, and

If....

Then....

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. the insurer decides to use the prospective loss costs to revise its rates... 2. the insurer decides NOT to use the revisions... | <ol style="list-style-type: none"> 1. the insurer must file a Loss Cost Filing Adoption Form for review or approval including its effective date. 2. the insurer does not file anything with the Insurance Department. |
|---|--|

Section II: Supplementary Rating Information

A) Rating Bureau Action

- Rating bureaus file with the Insurance Department, for review or 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 rating bureau on behalf of those insurers that have authorized the rating bureau to file rules, relativities and supplementary rating information on their behalf.
- Rating bureaus may print and distribute manuals of rules and supplementary rating information excluding minimum premiums.

B) Insurer Action

- If an insurer has authorized a rating bureau to file on its behalf, and a new filing of rules, relativities and supplementary rating information is filed

If....

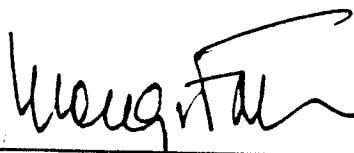
Then....

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. the insurer decides to use the revisions and effective date as filed... | <ol style="list-style-type: none"> 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...
 3. the insurer decides not to use the revision...
 4. the insurer decides to use the revision with modifications...
2. the insurer must notify the Insurance Department of its effective date before the rating bureau's effective date. An Application to Deviate from Bureau Filings (Form 1A) must be submitted for filings made under Section 3935.07 ORC.
 3. the insurer must notify the Insurance Department before the rating bureau's effective date. An Application to Deviate from Bureau Filings (Form 1A) must be submitted for filings made under Section 3935.07 ORC.
 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 rating bureau. An application to Deviate from Bureau Filings (Form 1A) must be submitted for filings made under Section 3935.07 ORC.
- C) Insurers who reference file rule and supplementary rating information (not a member/subscriber) must also comply with Section B except an Application to Deviate from Bureau Filings (Form 1A) does not need to be submitted.

1-8-91

Date



George Fabe
Superintendent

INSURER RATE FILING
ADOPTION OF RATING BUREAU
PROSPECTIVE LOSS COSTS
FILING ADOPTION FORM
OHIO

1. INSURER NAME _____
ADDRESS _____

PERSON RESPONSIBLE FOR FILING _____
TITLE _____ TELEPHONE# _____

2. INSURER NAIC# _____
3. LINE OF INSURANCE _____
4. RATING BUREAU _____
5. RATING BUREAU LOSS COST FILING# _____

6. The above insurer hereby declares that it is a participating insurer of the named rating bureau for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss cost in the captioned Loss Cost 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. PRIOR DEVIATION PERCENTAGE _____% EFFECTIVE DATE _____
10. Approximate Ohio Written Premium affected by this change \$ _____

11. ATTACH "SUMMARY OF SUPPORTING INFORMATION FORM"
(Use a separate Summary for each insurer-selected loss cost multiplier.)

11. 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 bureau's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the rating bureau'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 bureau's prospective loss costs. This authorization is effective until disapproved by the Superintendent, or amended or withdrawn by the insurer.

The insurer hereby files to have its loss costs multipliers and, if utilized, expense constants be applicable only to the above Rating Bureau Lost Cost Filing.

Insurer Name: _____
NAIC Number: _____

Date: _____

**INSURER RATE FILING
ADOPTION OF RATING BUREAU 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 loss cost 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 SUPPORTING INFORMATION.

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: $(2B \div 4B) =$ _____

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 _____ %

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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.