

FAIR. FAST. PROFESSIONAL.

The Nine Nuisance Items of Commercial Lines Rate Filings

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– Have you:

- Entered all sorts of data, uploaded exhibits, etc. for a filing only to find out you made an error at the start of the filing that you couldn't fix?
- Had some difficulty identifying exactly what is expected in a filing?



- If you've had those
 - This presentation is for you!

- It's also for you
 - If you just want to get the technical aspects of your filing right the first time and avoid delays.



- What we'll do:
 - Cover a wide variety of filing problems that companies have more often than they should.
 - Focus mostly on technical compliance: right forms, right information, filled out the right way. Not focus on the actuarial compliance.
 - Describe some of the problems we're seeing with a brief statement on how to avoid each one.



Filing Problems Grouped into 9 categories

 These are the problems companies experience the most often

The Nine Nuisance Items



The Nine Nuisance Items of Commercial Lines Rate Filings

- 1. Assigning the wrong line of business/subline to a filing
- 2. Failing to enter or entered <u>improper information required</u> in the filing
- 3. Failure to fill out the interrogatories correctly
- 4. Failure to fill out the OIR-B1-583/595 expense forms correctly
- 5. Failure to provide the <u>rate/loss cost indication</u> <u>and/or to supply</u> complete <u>documented backup</u> for rate/loss cost indications
- 6. Failure to support any loss cost multipliers requested in a tiering system or on a standalone basis
- 7. Including <u>subjective rating factors</u> that are outside/in addition to schedule rating
- 8. Improper setup of the RCS module
- 9. Submission of a filing with changes that can't be readily understood



Item 1 - Assigning the wrong line of business/subline to a filing

- With our new RCS, the rating examples segment requires that the right rating examples be associated with each filing.
- OIR must enforce requirement that rates be filed in each subline they will be used in.
- For example, a filing in 'other commercial auto' will only cover a few miscellaneous classes.
 - To use the rates for trucking, a 'trucking' filing must be made.
 - For a filing affecting both trucking and auto dealers, two separate filings must be made (one in 'trucking', the other in 'garage').
- Specifically a filing in 'other commercial auto' to cover all commercial auto sublines will have no legal standing in the other sublines.

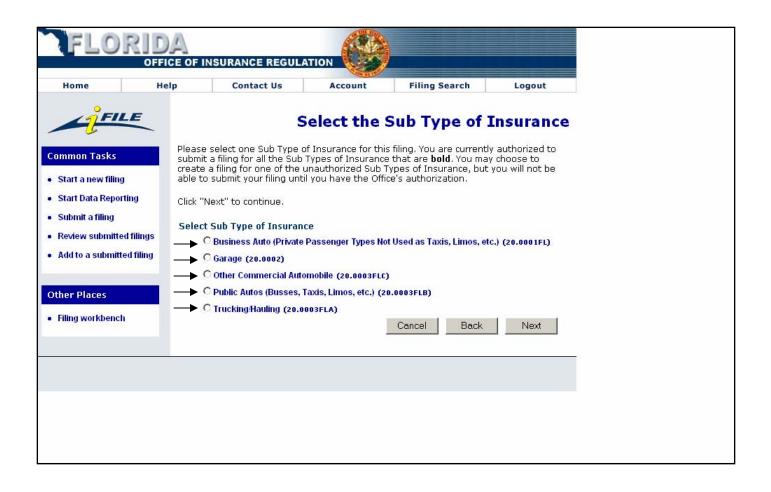


<u>Item 1 - Assigning the wrong line of business/subline to a filing (cont.)</u>

- Unfortunately, once the line of business/subline is set and you have begun entering data it cannot be changed.
- If you enter the wrong subline and submit the filing, the only way to fix this is to withdraw the filing.
- Since we expect accuracy enough to consider the correct line of business a 'given', this can ambush you when you work through fixing several other aspects of the filing, only have this pop up on a final checking - requiring a full refiling.
- Our advice is to be careful what you do and follow the guidelines.









Item 2 - Failing to enter or entering improper information required in the filing

Three likely problem areas:

- 1. Rates vs. Rates and Rules
- 2. File and Use/Use and File/Info Only
- 3. Rate Data required in the UDL



<u>Item 2 - Failing to enter or entering improper</u> <u>information required in the filing (cont.)</u>

- 1. Rates vs. Rates and Rules
 - Any filing changing any numeric rating factor is a 'rates and rules' or 'rates' filing
 - For example, filing a rule for optional higher deductibles that includes the rate credit for the deductibles is a 'rates and rules' filing, not a rule filing
 - Recoupment of assessments must be made for Recoupment type of filing and not as Rules
 - Unfortunately, once a filing is made, the UDL is set for the filing. It can only be changed by refiling.

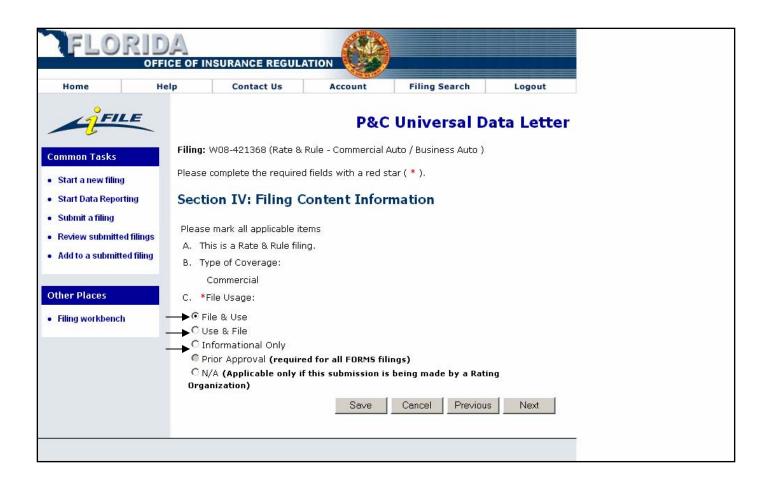


<u>Item 2 - Failing to enter or entering improper</u> <u>information required in the filing (cont.)</u>

- 2. File and Use/Use and File/Info Only
 - File and Use must be filed 90 days prior to the effective date
 - Use and File must be filed within 30 days of the effective date
 - Effective dates must have correct relationship to filing date for File and Use and Use and File (see Section 627.062 F.S. for details)
 - Property filing with rate increase must be submitted as File and Use pursuant to HB1A
 - Annual actuarial rate certifications are Informational Only
 - Filings that fall under Section 634 F.S. are Informational Only
 - Remember I-File may take awhile to complete, so to start early









<u>Item 2 - Failing to enter or entering improper</u> <u>information required in the filing (cont.)</u>

- 3. Rate Data required in the UDL
 - Rate Change Indicated
 - Rate Change Requested
 - Earned Premiums
 - Number of Policies
 - Too often, the company leave these four data fields blank or incorrect data reported (e.g., combined premium entered for Property Non-Residential, Condo, and Non-Condo instead of premium for each subline)
 - Filing must include the overall rate impact
 - The data reported In UDL must match the information shown elsewhere in the filing



Item 3 - Failure to fill out the interrogatories correctly

- Filling out the RCS question as 'no' or 'no change to RCS rating examples' for a new program
 - The program affects all future insureds
- Describing a loss cost multiplier filing or a program deviating on a few ISO loss costs as an independent program
- Saying that a new program does not affect substantially all insureds because there are no existing customers
- Using a cat model or applies a reinsurance charge in the rate indication but answering 'no' to the interrogatory questions
- All of the above can ambush you later!



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Home	Help	Contact Us	Account	Filing Search	Logout
FILE				Edit Interro	gatories
Common Tasks	Work U	nit Number: W08-42136 Name: Project2 Purpose: Rate & Rule			
Start a new filing		Product: Commercia	l Auto / Business Auto		
Start Data Reporting Submit a filing		s a list of interrogatorie: iate selection.	s for this filing. Please a	nswer questions by checki	ing the
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Other Places	2. Is t	this filing being made to	comply with a change	in Florida law?	Yes No
Filing workbench		es this filing propose ch ur insureds?	anges in the level of co	verage you are providing t	to Yes No
		es this filing include reir ication?	nsurance costs in the de	etermination of any rate lev	vel Yes No
	the ass	Office's RCS rating exa	amples OR is there an o	result in a rate change to overall rate change le the introduction of a new	Yes No v O O
	6. An:	swer "Yes" to only one	question below:		
	(a)		e the adoption of loss c ne loss cost modification	osts promulgated by a Rati i factor equals 1?	ing Yes No
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	(d)		t rate or rating factor fil substantially all) policyl	ling where the proposed ra holders?	te Yes No
	(e)	Is this an independent change DOES NOT aff	t rate or rating factor fil fect all (or substantially	ling where the proposed ra all) policyholders?	te Yes No
				Cancel Cle	ear Save



Item 4 - Failure to fill out the OIR-B1-583/595 expense forms correctly

- Using a general, commission, or other acquisition loading that is higher than the historical ratios
- Using countrywide figures for premium tax and miscellaneous tax in Florida
- Using average total tax data from rating organization, etc.
 - Significant Florida taxes (guaranty fund assessments, Citizen's insurance assessments) require separate recoupment filings and cannot be included in rate filings.



Item 4 - Failure to fill out the OIR-B1-583/595 expense forms correctly (cont.)

- Including a premium tax that is higher than the tax you pay in Florida
 - Main tax rate is 1.75%, retaliatory taxes raise this tax in some states (must supply proof of retaliatory tax if you claim them)
- Including a loading for miscellaneous licenses and fees without itemizing the underlying fees in detail
 - To prove no guaranty fund assessments, etc. included, and no items that offset premium tax (state income tax, police pension fund assessments, firefighter pension fund assessments) are included.
- Department of Revenue Tax Form can be found at: http://dor.myflorida.com/dor/forms/2008/dr908.pdf



Item 4 - Failure to fill out the OIR-B1-583/595 expense forms correctly (cont.)

- Use of a non-standard profit loading without providing support
 - Procedure outlined in Rule 69O-170.003 F.A.C. for profit and contingency loads.
 - Alternatively, company can use the OIR default profit loads from the 2004 informational memorandum (OIR-04-002M) without providing further support.
 - Pure Rate of Return on Investments (ROI) or Rate of Return on Equity (ROE) calculations are not allowed per 627.0651(2)(d) in Florida Statutes.



<u>ltem 4 - Failure to fill out the OIR-B1-583/595</u> <u>expense forms correctly (cont.)</u>

- On OIR-B1-583 forms, the proposed loss cost modification factor, or the current modification factor, may not be correct.
 - One page for each loss cost multiplier/loss cost modification factor.
- Arithmetic errors: the various expenses do not add to the total expense percentage; one minus expenses does not equal losses; loss cost mod divided by loss ratio does not equal expenses.
- Other expense is listing without backup or the needed itemization of the underlying expenses.
 - Itemization is required because guaranty fund assessments, etc. is sometimes reported here.



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Company (Group) Name: Test Company Date:										
Advisory Organization: ASO	_									
Reference Filing:08-00000				Replace	s Reference	Filing:07	-00001			
Combination to which this page applie (line, subline, coverage, territory, cla		etc.)	Com Prog		Auto-Comme	rcial Aut	o Liabil	ity:Business Au	to-Merchant	
Overall rate level change for the cover					lies:			+3.0%		
attach worksheet showing calculation Policies in force:	on of	f rate level	charg	je				1250		
STEP I - DEVELOP YOUR COMPANY'S	LOS	S COST N	AULTI	PLIFR				1230		
Select loss cost modification factor: Check one				Selected for this filing Lo				oss cost modification factor from last approved filing		
Without Modification →				1.000						
OR										
^ With Modification, facto)F ->			1.20						
2. Breakdown of expected expenses: Category						3 Year Weighted Average +		Selected For This	Last Appr	
									Filling	
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Latest 3 Calendar Years → A. Commission and Brokerage	%	2005	1-	2006 4.0%	2007 15.0%		erage +		15.0%	
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A. Commission and Brokerage B. Other Acquisition C. General D. Premium taxes E. Miscellaneous Licenses and Fees F. Other (explain on page 2) G. Profit and Contingencies H. TOTAL (expense ratio) ** Per FL Rule 690-170.003	% % % %	13.0% 10.0% 8.0% 3.0%	9.	4.0% 0% 5% 0%	15.0% 8.0% 7.0% 3.0%	14.09 9.0% 7.5% 3.0%	erage +	20.0% 12.0% 6.5% 3.0% 1.0%	15.0% 9.0% 7.5% 1.75% 0.0%	
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<u>Item 5 - Failure to supply</u> <u>backup for rate/loss cost indications</u>

- 1. For independent rates, we need the rate indications workbook
 - Includes separate attachment with backup for every workbook item (e.g. loss development factors) that says 'SUPPORT'.
- 2. For rating organization programs with loss cost and loss cost modification factor, we need the loss cost indications workbook
 - Similar backup file required.
 - Call us to get copy of workbook until we put it in the system.
- 3. If rates/mods are supported by premium comparison or competitor filing, include:
 - (a) Premium comparison/other filing info, and
 - (b) Florida filing number for the approved competitor's filing



<u>Item 5 - Failure to supply</u> <u>backup for rate/loss cost indications (cont.)</u>

- 4. If relying on Rate Organization loss costs include Florida filing number of the Rate Organization filing
 - You may find calling the Rate Organization to get it to save time.
- 5. Backup in any underlying relativity-type changes
 - Would include changes by coverage, territory, etc.
 - Actuarial calculations or premium comparisons (with filing number) supporting the change
 - Description of actuarial process and the impact of changes in explanatory memorandum

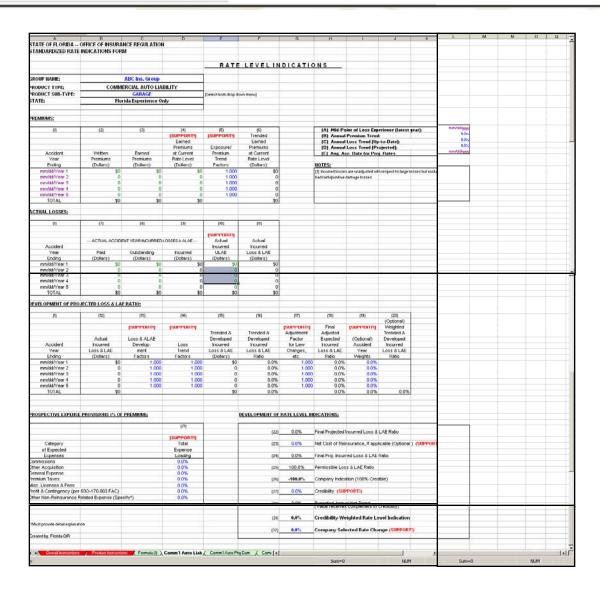


<u>Item 5 - Failure to supply backup for</u> <u>rate/loss cost indications (cont.)</u>

- 6. Description of the change
 - What is the overall rate change?
 - What is the breakdown of the changes due to loss cost multipliers, expense factors, and rate organizationloss cost changes?
 - What is the breakdown of the rate change into major categories? (e.g., 5.0% base rates and 2.0% due to higher ILFs =+7.1% overall)
- 7. For filings with loss cost modifiers, the overall average loss cost modifier across all tiers, coverages, etc.



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<u>Item 6 - Failure to support any loss cost modification factors</u>

- We need a separate loss cost indications workbook or relativity support for each tier
 - In some lines, if ratio of highest tier to lowest tier is not too high, we may simply focus on the average loss cost modification
 - If fully justifying, include loss cost indications workbook for each tier, or justify average modification and show loss ratio for each tier at the base tier pricing level (and compare to tier relativities)
- All requirements listed in Item 5 must be met.



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			Loss Cost	Exposure/	at Current		at Current	Cost	Credit/	Credit/	Loss Cost	
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<u>Item 7 - subjective rating factors</u> <u>outside/in addition to schedule rating</u>

- Most commonly used in unusual lines or programs migrating from the surplus market
- It is not unusual in such filings to see rating criteria include terms such as 'low risk', 'innocuous', 'financially strong', etc.
- While these terms have meaning, they are likely to be interpreted to mean different things by different people. Therefore, they are subjective
- Per Rule 69O-170.004 F.A.C., all subjective rating must be placed in a single plan with total credit/debit capped at +/-25%
- Also per rule eligibility criteria, subjective rating must require \$1,000 in annual premium



<u>Item 8 - Improper setup of the RCS module</u>

Key considerations:

- A. Structural problems with the filing setup
- B. Entry problems
- C. Support problems
- D. RCS Rate Change Information



<u>Item 8 - Improper setup of the RCS module (cont.)</u>

- A. Structural problems with the filing setup
 - In a multi-tier filing, just setting up the middle tier in RCS, and not entering the rating examples for the other tiers.
 - In a subline requiring the RCS premium breakdown form but not rating examples (e.g. Garage), failing to set up all the tiers you use (this will cause trouble with future RCS rate impacts).
 - Trying to use all the GL class codes in a given filing. This
 will generate a system error-just select your predominate
 class codes instead.
 - Setting up separate criteria for rating examples by selecting custom coverages. Just use the examples in the system.
 If yours are slightly different use 'identical risk?' answer 'no' and explain the difference.



Item 8 - Improper setup of the RCS module (cont.)

B. Entry problems

- Trying to upload the rating examples workbook/premium breakdown workbook from a different version of the filing, program, or coverage
- Each workbook is keyed to exactly where it goes and which filing it goes in
- You can, however, copy data from workbook to workbook



<u>Item 8 - Improper setup of the RCS module (cont.)</u>

C. Support Problems

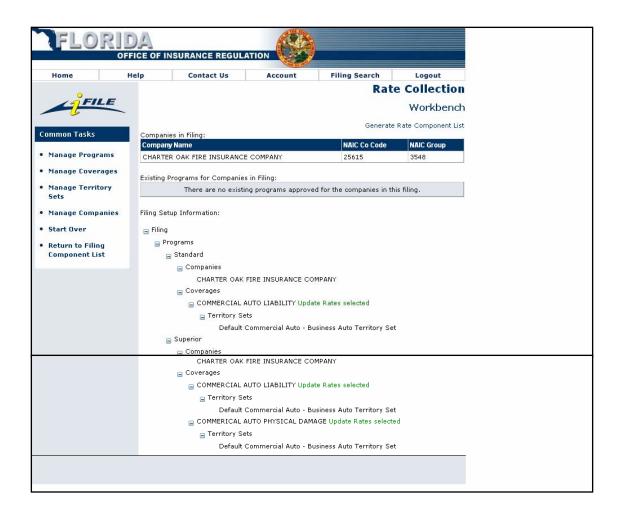
- Failure to include/fill out the RCS verification
- RCS verification is a free-form exhibit where you show exactly how you calculated a sample of the premiums shown in the RCS-show us the calculation and the page number, etc. of each factor used to price the example risk.

D. RCS Rate Change Information

 We do not have enough company submissions yet to get a perspective on this.



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Item 9 - Submission of a filing that can't be readily understood

Examples:

- "We changed the factor in rule 9.B. to 3.0."
- "We're making changes that vary between -5% and +10%" without disclosing what changed, or even the overall impact.
- Submission of a fifteen page spreadsheet exhibit (pdf instead of Excel) with no description of the calculations.



Item 9 - Submission of a filing that can't be readily understood (cont.)

A few guidelines:

- In many companies you have to submit a fairly understandable exhibit/documentation just to get the buy-in of the rest of the staff. Consider that as a starting point (maybe all you need) for what you send us.
 - Remember that we need a little more because we won't be meeting with you face-to-face.
- Make your explanations self-contained.
 - Replace "We changed the factor in rule 9.B. to 3.0." with "The per employee rating factor for auto salespeople under the Garage policy has been revised from 2.0 to 3.0. We expect this 50% increase to have a +35% impact on total Garage premiums."



The Nine Nuisance Items of Commercial Lines Rate Filings

Key reminders before submitting the filing in I-File:

- Check the applicable Florida Statutes and Administrative Rules in preparation of the filing.
- Be familiar with your filing proposals and be able to relate and explain this in the filing to the OIR.
- Cross check all the forms, exhibits, data, and calculations to ensure consistency.
- Review your filing as if you are the regulator for completeness and accuracy.



The Nine Nuisance Items of Commercial Lines Rate Filings

Questions?