NAIC LOSS COST MEMORANDUM—
OTHER THAN WORKERS' COMPENSATION
(Effective November 7, 2008)

Prospective Loss Costs Filing Procedures

This memorandum specifies the framework under which advisory organizations and participating insurers in advisory organizations operate in a loss cost system—other than workers' compensation. This is a revision of the NAIC 1991 Sample Loss Cost Bulletin applicable for these lines of insurance.

Under this system, advisory organizations no longer develop or file advisory final rates, but instead 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 organizations develop and file rules, relativities and supplementary rating information on behalf of its participating insurers.

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 expense) 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 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. Advisory Organization Action

Advisory organizations 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 organizations 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.

The Reference Filing will contain the advisory prospective loss costs and the underlying loss data and supporting actuarial and statistical data.

After a Reference Filing has been filed to the insurance department and approved, the advisory organization will provide its participating insurers with a copy of the approved Reference Filing.

The advisory organization may print and distribute manuals of prospective loss costs as well as rules and other supplementary rating information described in Section II A.

Advisory organizations 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 an advisory 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 NAIC Loss Cost Filing Document—Other Than Workers' Compensation (henceforth referred to as the "Loss Cost Filing Document"). The insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Loss Cost Filing Document.

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.

Examples:

Below are two examples of how to apply a company's loss cost modification factor to the advisory organization's prospective loss costs.

- 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.

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 organization's Reference Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Loss Cost Filing Document 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 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 Loss Cost Filing Document.

Insurers may file such other information that 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 Document, to the prospective loss costs contained in an advisory organization's Reference Filing and printed in the advisory 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 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 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 Loss Cost Filing Document (formally the 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 filing, 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 Loss Cost Filing Document 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 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, rules which include factors or relativities such as employers liability increased limits factors, classification relativities or similar factors, but excludes minimum premiums.

These filings are made by the advisory organization on behalf of those insurers that have authorized the advisory organization to file rules, relativities and supplementary rating information on their behalf.

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

B. Insurer Action

If an insurer has authorized an advisory organization to file on its behalf, and a new filing of rules, relativities and supplementary rating information is filed and approved 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 of its effective date before the approved advisory organization's effective date.
3. The insurer decides not to use the revision.		3. The insurer must notify the insurance department before the advisory 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 organization.

Section III. Loss Cost Data Entry Document

The "NAIC Loss Cost Data Entry Document" and its accompanying "NAIC Loss Cost Data Entry Document Instructions" are available through this website should states wish to adopt use of these documents for loss cost data collection purposes.

Section IV. Inquiries

All inquiries concerning this memorandum pertaining to actuarial analysis or calculation should be directed to Kris DeFrain, Chief Property & Casualty Actuary, National Association of Insurance Commissioners, Financial Regulatory Services, 2301 McGee Street, Suite 800, Kansas City, MO 64108-2662 (kdefrain@naic.org).

All inquiries concerning this memorandum pertaining to *other than* actuarial analysis or calculation should be directed to Bob Card, Senior Regulatory Analyst, National Association of Insurance Commissioners, Research Division, 2301 McGee Street, Suite 800, Kansas City, MO 64108-2662 (bcard@naic.org).