

**DCRB**

**DELAWARE COMPENSATION RATING BUREAU, INC.**



**DELAWARE  
WORKERS COMPENSATION CLASSIFICATION PLAN**



**OVERVIEW**

## **INTRODUCTION**

**THE PURPOSE OF THIS DOCUMENT, PREPARED BY THE DELAWARE COMPENSATION RATING BUREAU INC. (“DCRB”), IS TO PROVIDE AN OVERVIEW OF THE NATURE AND OPERATION OF THE APPROVED CLASSIFICATION SYSTEM FOR DELAWARE WORKERS COMPENSATION INSURANCE.**

The DCRB is a non-profit corporation formed in 1917 in accordance with the insurance laws of Delaware and is not affiliated with state government. The DCRB’s enabling statute specified that classification of employers, underwriting rules, policy forms, loss cost values and rating plans for workers compensation shall be proposed by a rating bureau. The DCRB is subject to supervision and examination by the Delaware Insurance Commissioner, who must approve its ability to compile loss costs and assigned risk rates on an equitable and impartial basis. The DCRB membership is comprised of insurance carriers authorized to sell workers compensation insurance in Delaware.

### **WHAT ARE “CLASSIFICATIONS”?**

Classifications are a way of grouping together various types of businesses and identifying experience attributable to those various types of businesses. In Delaware there are approximately 340 different business classifications approved for use in workers compensation insurance.

### **WHY ARE CLASSIFICATIONS NEEDED?**

Without classifications employers would be required to pay a single, average rate regardless of their true potential for loss. The grouping of similarly operating businesses attempts to ensure that the cost of the workers compensation system is fairly distributed among employers throughout the state. The loss/claims experience developed by a commonly grouped set of employers, as reported to the DCRB by its insurance carrier members, is analyzed to produce a DCRB loss cost. A DCRB loss cost is a dollar amount per unit of exposure, normally payroll, which is needed to pay for the losses/claims developed by the employers within a certain classification.

To maintain the integrity of the classification system and the accuracy of the DCRB loss costs attributed to the individual classifications within the classification system it is imperative that employers be properly classified. Therefore, any employer who is found to be misclassified must be assigned to the proper classification even though that employer’s operation may not have changed and/or that employer has been claim free for many years, if not for the life of the business.

### **WHAT IS THE OBJECTIVE OF THE CLASSIFICATION SYSTEM?**

In general the objective of the classification system is to assign each insured employer to the one classification that most accurately describes each distinct business enterprise of that insured employer within Delaware. Most classifications attempt to bring together a reasonably homogeneous group of employers and are intended to include within their scope employers engaged in competition with one another in the conduct of the same type of business. Thus, within certain practical limits the DCRB has attempted to establish classifications on an industrywide basis. Under this system a classification is intended to describe a “business” rather than an “occupation” or “type of employment.”

The DCRB recognizes that no two employers, even employers engaged in the same type of business, will necessarily have identical operations or conditions of employment. However, there clearly will be greater

similarities between the operations of employers in the same type of business than between employers in different types of businesses. The objective of the classification system is consistent with the purpose of workers compensation insurance, which is to insure the liability of the employer for injuries suffered by the employer's employees in the course of their work. Thus, it is the employer which is the insured unit rather than the employer's individual operations or employees.

All classifications embrace a spectrum of operations and employments which present a range of greater and lesser hazards. By design the loss cost for a given classification reflects the loss potential of the entire operation of the business(es) described by that classification.

## **ARE ALL CLASSIFICATIONS DEFINED STRICTLY BASED ON EMPLOYERS' BUSINESSES?**

There are six other concepts for classification assignment that are applied in special circumstances.

### **Standard Exception Classifications**

"Standard exception" classifications depart from the above described philosophy of classification by field of business. In Delaware separate standard exception classifications are available for outside sales and clerical office personnel who qualify under the definitions for each contained in the Delaware Workers Compensation Manual. Outside sales and clerical office employees are generally subject to separate classification because these employees are found in almost all businesses and are not normally an integral part of the employer's operational hazards. Therefore, these employees are separately classified for all manufacturing, construction, mining and public utilities businesses.

### **All-Inclusive Classifications**

Certain specified classifications in the mercantile and professional services classification groups require the inclusion of outside sales and clerical office payroll. Because of the types of employees utilized by such businesses, the typical physical configuration of the employer's facilities and the ways in which the work of the business is structured and conducted, the distinction between activities which are and are not integral parts of the employer's operational hazards is more difficult to establish for these classification groups than for others. Thus, if payroll division for the standard exception classifications were required for these classification groups, questions of which employments would be eligible for outside sales or clerical office assignment would arise over a broad spectrum of the business' overall employment.

The loss cost for an all-inclusive classification includes and reflects the experience of outside sales and clerical office employees and is an average for all employment occurring in the business described by that classification.

### **General Inclusions**

Given the field of business criteria in assigning classifications, it follows that all classifications (except the standard exceptions) contemplate all operations of an employer that are not separate and distinct businesses. Though separate classifications appearing to be applicable to certain operations within the employer's business may exist, since these operations are incidental to the employer's overall business enterprise these operations are not subject to those separate classifications. For example, the repair shop servicing the vehicles of a trucking business, a rubbish or garbage collector or a taxicab company would not be assignable to the vehicle repair classification but would be included within the respective field of business classification applicable to the employer. Other common examples of general inclusions are commissaries, first aid stations, day care services, research and development labs, quality control departments, printing on products or packaging, tool and die shops and the maintenance of equipment and/or buildings.

### **General Exclusions**

In contrast to the general inclusions some operations of an employer are so exceptional that they are excluded from the scope of the field of business classifications applicable to an employer. General exclusion operations are aircraft operation, new construction, sawmills, stevedoring and mining.

### **Multiple Enterprises**

In some instances additional classifications (other than the standard exception classifications discussed above) may be authorized for an insured employer that operates two or more distinct and physically separated business enterprises, using separate staffs and having limited or no operational continuity between the respective enterprises. If, for example, an insured employer had a plant that manufactured electric motors at one location and the same insured employer had a separate staff manufacturing plastic bottles at a second location, these separate operations would be subject to separate classifications, each based on the operation being conducted at the location in question.

### **Construction Classifications**

There is generally a lower degree of homogeneity between construction businesses than exists between manufacturing, utilities, mercantile or professional service businesses. Construction workers are typically hired for a particular job. Their employment often ends when the hiring contractor's part of that job or the job itself is finished. Thus, construction workers and construction businesses have no "fixed" workplace and may be subject to a broader range of hazards than other types of employers and businesses. Recognizing these circumstances, construction classifications in Delaware are structured either by trade, e.g., electrical wiring, plumbing, painting or paperhanging, or on a project basis that includes all work to completion, e.g., tunneling. It should be noted that many contractors operate entirely within a single trade so that their classification assignments would be limited to the appropriate trade classification plus the outside sales and clerical office classifications, if appropriate.

## **MUST ALL INSURANCE COMPANIES USE THE SAME CLASSIFICATION SYSTEM?**

The DCRB proposes classification definitions and associated loss costs for approval by the Delaware Insurance Department. Once approved this plan becomes the classification plan that must be used in reporting statistical data to the DCRB. This ensures that subsequent reviews of experience and revisions to prevailing loss costs can be accomplished based on continuing reporting of experience for Delaware employers organized in accordance with this single approved plan.

While the classification plan, as approved by the Delaware Insurance Department, serves as a benchmark plan and is required for use when insurers report statistical data to the DCRB, House Bill 430 (amending §2607, Title 18 of the Delaware Code) effective July 12, 2004 permits an insurer to develop subclassifications to the Bureau's classification system, adding a significant element of flexibility to the classification of workers compensation policies in Delaware.

## **WHAT ARE SUBCLASSIFICATIONS?**

Subclassifications represent individual insurance companies' departures from approved classifications. They can be developed by insurance companies to divide classifications into different parts (subclasses) which may be assigned different loss costs or expense provisions based on each insurance companies' own experience and judgment. Subclassifications may be established by insurance companies for a variety of competitive reasons. Subclassifications which an insurance company wishes to begin using

must first be filed with the Delaware Insurance Department for approval. Such approval is contingent on the insurance company remaining able to report data for all its policies, including those underwritten using subclassifications, in conformance with the approved classification plan.

### **IS THE DCRB'S CLASSIFICATION SYSTEM EVER CHANGED?**

Yes. The DCRB often files proposed changes to the classification plan with the Insurance Department, and such proposals are often approved.

### **WHY ARE SUCH CHANGES MADE AND HOW ARE THEY ACCOMPLISHED?**

There are many circumstances that may precipitate a change in classification definitions. Classifications may be added, deleted or amended in order to recognize economic or technological changes in the operations of a particular industry. Employer groups may be reassigned from one classification to another classification in an attempt to improve the equability of workers compensation insurance prices for different types of businesses. Such actions may be initiated by request of an employer, a trade association, an insurance carrier, the DCRB's Classification and Rating Committee (generally as a result of that committee's review of insured risk appeals), legislative staff, the Insurance Commissioner or DCRB staff.

It is neither possible nor desirable to devise a separate classification for each specific individual employer or exact type of business. Many businesses do not have a sufficient volume of experience to be a reliable indicator of future experience. In order to be eligible for separate classification an employer group must generally meet all the following criteria:

- Have experience volume sufficient to be a useful indicator of future loss costs
- Have significantly different experience (either better or worse) than the balance of the currently applicable classification
- The operations involved must be reasonably different and distinguishable from those of the remaining accounts in the currently applicable classification

The DCRB carefully reviews the operations of the employer group both separately and in relation to their current classification. A similar review is also made of the employer group's loss experience.

Such DCRB reviews commonly result in either no change in classification assignment, reassignment of the requesting employer group to another existing classification or the creation of a new separate classification at either a lower or higher loss cost than the currently applicable classification.

### **IF AN EMPLOYER NEEDS INFORMATION CONCERNING CLASSIFICATIONS, HOW CAN THAT INFORMATION BE OBTAINED?**

The most convenient sources for information concerning an employer's classification are the employer's insurance agent or broker or, if the employer does not work through such a producer, the employer's insurer itself. Professional insurance agents and brokers and many staff members employed by insurance companies are very familiar with most common classification issues. It is mutually beneficial for employers and their carriers to exchange information regarding the nature of the employers' business and how the classification system applies to those operations. The DCRB encourages employers to present inquiries they may have regarding classification issues as soon as they arise so that a determination about

them can be made and communicated to the employer in a timely fashion. In fact, perhaps the most fundamental starting point for this process is for each employer to provide complete, detailed and accurate information with his or her applications for insurance. This information will be of substantial help in assuring that initial classification assignments are correct and fully understood by all parties.

### **IS IT POSSIBLE FOR THE EMPLOYER TO OBTAIN AN IMPARTIAL REVIEW OF A CLASSIFICATION MATTER?**

Yes. The DCRB maintains a complement of staff who are experienced and expert in matters pertaining to classification. These employees routinely respond to questions or even complaints concerning classification matters presented by employers, agents and other interested parties representing employers' interests. Experience gained by the DCRB in handling thousands of such matters each year permits our staff to resolve the vast majority of issues presented to the satisfaction of all parties once we have had an opportunity to review all pertinent information. Employers should be prepared to provide a written explanation of their questions in order to make certain that all pertinent facts are clearly presented and commonly understood and that the DCRB's decisions are based on correct information. In most cases the employer or other individual contacting the DCRB can provide all needed information quite readily.

In some more complex matters it may be appropriate for the DCRB to have a member of its field staff visit the operations in question in order to gather complete and specific information for use in making a final determination. The DCRB's classification staff can be reached using the address listed at the end of this document.

### **CAN THE EMPLOYER CONTEST THE DCRB'S DECISION?**

Yes. While almost all classification issues are resolved cooperatively between the employer, insurance company and the DCRB, occasionally issues are encountered in which differences of opinion persist and which have sufficient effect on employers' premiums to merit further review.

If an initial DCRB staff decision is subsequently disputed with sufficient cause, a comprehensive decision reassessment may be performed by the DCRB based on the merits. Under these circumstances an employer who wants to appeal a classification assignment must submit a written request for review to the DCRB together with all information in support of the employer's appeal. DCRB staff will review the request, often in conjunction with senior management. Depending upon the results of this review the DCRB's original decision may be either reaffirmed or revised with an accompanying explanation provided to the employer establishing the basis for that decision. This decision is generally considered the final decision of the DCRB staff.

If the employer remains aggrieved by this final decision, the employer has the right to present its appeal to the Classification and Rating Committee. A further appeal of a decision of that committee may be taken to the Insurance Commissioner only after the employer has first exhausted its other appeal rights under DCRB rules.

A detailed description of the Rules of Procedure for classification appeals, which is enclosed with many of the DCRB's decision letters, is available from the DCRB upon request by any employer contemplating a possible appeal. It is also available on the DCRB website.

The DCRB offers a Rating and Underwriting reference on our website at no charge. This service provides access to experience rating modifications, merit rating adjustments, Manual classification descriptions and Underwriting Guide, and loss cost/rate data. Access simply requires you to register for the Universal Login at our website. Click on the Application Login link on the left sidebar of this website and then click on the "New User" link. Complete all required fields and you will be emailed a password. If you have any questions regarding this service, please contact William Taggart, Vice President - Data Processing Operations, at Extension 4400.

Questions regarding the information in this overview or other Delaware workers compensation system subjects should be directed to the following extensions at the Bureau.

Administrative Services	X4487
Classification Plan	X4488
Construction Classification Premium Adjustment Program	X4421
Coverage Rules	X4421, X4488
Experience Modifications	X4421
Loss Cost Filings	X4479, X4477
Loss Cost Values	X4488
Policy Reporting	X4423
Merit Rating	X4421
Underwriting	X4422

**Visit our web site at [www.DCRB.com](http://www.DCRB.com).**

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