

Delaware Compensation Rating Bureau, Inc.



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November 5, 1998

BUREAU CIRCULAR NO. 711

To All Bureau Members

Re: **CARRIER LOSS COST, LOSS COST MULTIPLIER (LCM)
AND SCHEDULE RATING FILINGS AND PROCEDURES**

The Bureau has recently received questions from some members with regard to the referenced topics. This circular is to inform all carriers of key features of Delaware filing procedures and/or conditions of application of these pricing parameters or programs. Please be advised that the Bureau has confirmed the following provisions with the Delaware Department of Insurance.

Carrier Loss Cost, LCM and/or Schedule Rating Filings

The Department of Insurance has issued instructions regarding procedures to be used in submitting these filings to the Department. A letter conveying these instructions is attached to this circular. All members are encouraged to read and understand this important communication and to address any questions which may arise to the Department as indicated in the letter.

To date, Bureau member filings with the Delaware Department of Insurance have not been subject to a requirement that the carrier file an informational copy with the Bureau. Unfortunately, the lack of such informational copies has caused numerous instances in which policy and/or unit filings have been criticized by the Bureau because the Bureau was unaware of carrier filings on a timely basis. **Accordingly, for carrier loss cost, LCM and/or schedule rating filings made with the Delaware Department of Insurance on or after January 1, 1999, carriers are required to provide the Bureau with an informational copy of those filings.**

Loss Costs

Under current Delaware law carriers may adopt approved Bureau loss costs by reference or deviate from approved Bureau loss costs on a classification-by-classification basis. Regardless of the option taken in this regard, each carrier filing must clearly set forth the basis for the carrier's proposed loss costs by classification.

Loss Cost Multiplier (LCM)

All carrier manual rates by classification must be derived as the product of an LCM and the carrier's proposed loss costs. LCMs may differ by classification for a given carrier. Regardless of whether a carrier uses one universal LCM for all classifications or different LCMs for some or all classifications, each carrier filing must clearly set forth the LCM(s) to be applied.

The Bureau continues to encounter situations in which carriers describe their pricing parameters using a combination of an LCM(s) and one or more "deviations." For example, a carrier may state that its prices reflect an LCM of 1.1000 and a deviation of -10 percent. This practice produces confusion, often

precipitates needless Bureau criticisms of carrier policy filings and is both inappropriate and unnecessary under current Delaware law.

“Deviations” were uniform percentage departures from approved Bureau rates prior to the adoption of a competitive rating law in Delaware. The hypothetical carrier described above is effectively using an LCM of 0.9900 (i.e., $1.1000 \times 0.90 = 0.9900$), and the carrier should recognize this algebraic inevitability in its filing. If a carrier filing states that the LCM is 1.1000, the Bureau is most likely to capture that (incorrect) LCM in the database which supports its policy and unit statistical review functions. Policies priced using the LCM of 1.1000 and the “deviation” of 0.90 will then be criticized as using incorrect rates, producing needless time, effort and expense for both the carrier and the Bureau. In order to avoid this potential confusion, carrier filings should state only the LCM(s) which, in conjunction with their proposed loss costs by classification, will produce the carrier’s proposed rates.

Note that this prescribed procedure does not impair or limit in any way a carrier’s ability to propose and apply any desired rate in any given classification(s). By adhering to uniform standards, however, this procedure will avoid errors, conserve resources otherwise consumed by the issuance, review and response to criticism letters and reduce confusion for all concerned.

Subclassifications

Delaware law does not allow carriers to develop subclassifications.

Carrier Manual Rates by Classification

At any given time, a carrier may have only one authorized manual rate for each classification. The Bureau has encountered some instances in which the same carrier has attempted to apply different rates within the same classification based on various underwriting criteria. While pricing programs such as schedule rating are available in Delaware as a means of differentiating between risks within a given classification(s), a single carrier cannot simultaneously maintain more than one authorized rate for any given classification in Delaware.

Schedule Rating

The Bureau does not have a schedule rating plan which has been approved for use by all members by the Department of Insurance. Accordingly, carriers’ schedule rating plan filings are considered by the Department of Insurance to be independent filings rather than deviation filings. As independent filings, these carrier schedule rating plans are not subject to the requirement of annual filing with the Department of Insurance and may be applied indefinitely unless and until the carrier rescinds the filing, makes a new filing or the prior filing is subsequently disapproved by the Insurance Commissioner. ***This interpretation represents a change in procedure from that previously understood by the Bureau. The last schedule rating plan filed by each carrier will henceforth be recognized by the Bureau as remaining in effect unless rescinded, modified or disapproved, and members need not re-file such plans with either the Department of Insurance or the Bureau at this time.***

Questions regarding any of the above matters may be directed to Betty Ann Campbell, Director - Rating Rules and Policy Reporting.

Timothy L. Wisecarver
President

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Attachment: Delaware Department of Insurance Letter

State of Delaware



DONNA LEE H. WILLIAMS
INSURANCE COMMISSIONER

841 SILVER LAKE BLVD.
DOVER, DELAWARE 19904-2465
(302) 739 - 4251
FACSIMILE (302) 739 - 5280

Department of Insurance

October 20, 1998

Timothy L. Wisecarver
President
Delaware Compensation Rating Bureau
The Widener Building
6th Floor
One South Penn Square
Philadelphia, PA 19107-3577

RE: Filing Requirements

Dear Mr. Wisecarver:

The Department of Insurance is issuing the following instructions for the benefit of all DCRB members regarding filing requirements pertinent to the approval of revised voluntary market loss costs under DCRB Filing No. 9801.

In order to adopt revised DCRB loss costs resulting from Filing No. 9801, carriers are required to make an expense multiplier filing reflecting the most recent three (3) years of expense data from the Insurance Expense Exhibit. Such filings must be made subsequent to the approval of revised loss costs and not later than 90 days after the effective date of approval of these loss costs. If a carrier wishes to apply its expense multiplier to loss costs other than the approved DCRB loss costs, it must submit a filing to that effect which will be considered to be an independent rate filing and will be subject to the 30-day delayed effect filing provisions of Title 18 Del. C., Section 2610 of the Delaware Insurance Code.

As revised DCRB loss costs were approved on August 20, 1998, with an effective date of October 1, 1998, carrier expense multiplier filings must be made with the Department of Insurance after August 20, 1998 and not later than January 1, 1999. For any period of time between October 1, 1998 and January 1, 1999 in which a carrier has not yet made the required expense multiplier filing, it must continue to use rates currently approved for that carrier by the Department of Insurance.

Carrier filings which produce rates not less than the DCRB loss costs in each classification will be effective upon filing for use in Delaware. Other carrier filings must specify an effective date not less than 30 days after receipt of the filing by the Department of Insurance.

Timothy L. Wisecarver
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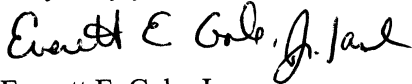
In the event that any carrier fails to make an expense multiplier filing with the Department of Insurance not later than January 1, 1999, the Department of Insurance will impose the approved October 1, 1998 residual market rates by classification effective as the approved rates for such carrier(s) effective January 1, 1999.

In addition to expense multipliers, carriers must file any expense constants, premium discount tables, size-of-premium expense tables for retrospective rating plans and minimum premium formulas they intend to use in Delaware.

Any questions regarding the Department of Insurance's procedures and/or forms for carrier expense multiplier filings should be directed to:

Ann M. Lyon
Rating Section
Department of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904
(302) 739-4251, ext. 125

Very truly yours,



Everett E. Gale, Jr.
Actuary

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