

BULLETIN

TO: ALL LICENSED FIRE AND CASUALTY COMPANIES

FROM: ELAINE A. MC REYNOLDS, COMMISSIONER  
DEPARTMENT OF COMMERCE AND INSURANCE

DATE: JULY 2, 1990

RATE SERVICE ORGANIZATION AND INSURER LOSS COSTS FILING PROCEDURES  
(Insurers filing under the provisions of 56-5-307 (e) REFERENCE  
FILINGS. must refer to Paragraph V. of this bulletin.)

I. (A) This Bulletin specifies the framework under which rate service organizations and participating insurers in rate service organizations will operate in a loss cost system. Under this system, rate service organizations will no longer develop or file rates, but instead will develop and file 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. The rate service organizations will continue to develop and file supplementary rating information on behalf of their participating insurers.

(B) Rate service organization filings of prospective loss costs, insurer filings to adopt rate service organization's loss costs, and all filings of rules and supplementary rating information, shall be made in accordance with the following:

Section 56-5-305: Personal risk insurance: Filings shall be made for approval at least 30 days before the proposed effective date.

Section 56-5-306(a): Commercial risk insurance: Filings shall be made not later than 15 days after the effective date.

(C) Nothing in these procedures shall be construed to require rate service organizations or their participating insurers to immediately refile rates previously implemented. Any participating insurer of a rate service organization is authorized to continue to use all rates and deviations filed 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 Tennessee Filing Adoption Form adopting the rate service organization's prospective loss costs, or modification thereof.

(D) The attached Tennessee Filing Adoption Form and Summary of Supporting Information shall be used by all insurers making rate filing pursuant to this Directive.

## II. Definitions

(A) "Expenses" means that portion of a rate attributable to acquisition, field supervision, and collection expenses, general expenses, and taxes, licenses, and fees.

(B) The term "prospective loss costs" means that 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.

(C) "Rate" means the cost of insurance per exposure unit, whether expressed as a single number or a prospective loss cost and 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.

(D) "Supplementary rate information" includes any manual or plan of rates, classification, rating schedule, minimum premium, policy fee, rating rule, and any other similar information needed to determine the applicable rate in effect or to be in effect. Supplementary rating information includes factors and relativities, such as increased limits factors, classification relativities, deductible relativities or similar factors.

(E) "Supporting information" means (i) the experience and judgment of the insurer and the experience or data of other insurers or rate service organizations relied upon by the insurer, (ii) the interpretation of any statistical data relied upon by the insurer (iii) descriptions of methods used in making the rates, and (iv) other similar information required to be filed by the Commissioner.

## III. Rates/Loss Costs

### (A) Rate Service Organization Action

1. The rate service organizations will no longer develop or file rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for all lines, rate service organizations will develop and file in accordance with sections 56-5-305 and 56-5-306(a) with the Insurance Commissioner a Loss Cost Filing containing advisory prospective loss costs and supporting actuarial and statistical data.
2. 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.

3. After a Loss Cost Filing has been filed in accordance with sections 56-5-305 and 56-5-306(a) with the Insurance Department, the rate service organization will provide its participating insurers with a copy of the Loss Cost Filing.
4. The rate service organization may print and distribute manuals of prospective loss costs, as well as rules and other supplementary rating information described in Section IV.

(B) Rate Service Organization Affiliated Insurer Action

1. Each insurer must individually determine the final rates it will file and the effective date of any rate changes. This will be the result of the independent company decision-making process unique to each insurer.
2. If an insurer that is an affiliated insurer in the rate service organization decides to use the prospective loss costs in the Rate Service Organization Filing in support of its own filing, the insurer should make a filing under Section 56-5-305 or 56-5-306(a) using the Tennessee Filing Adoption Form (copy of form attached). The insurer's rates are the combination of the prospective loss costs which have been filed and the loss cost adjustments contained in the Tennessee Filing Adoption Form.
3. The insurer may request to have its loss cost adjustments remain on file and refer to subsequent prospective Loss Cost Filings. Upon receipt of subsequent rate service organization Loss Cost Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Tennessee Filing Adoption Form on file with the Insurance Department, and will apply to policies written on or after the effective date of the prospective loss costs. The insurer need not file anything further with the Insurance Department.
4. 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 rate service organization Loss Cost Filing, the insurer must make an appropriate filing with the Insurance Department.
5. The insurer's filed loss cost adjustments will remain in effect until the insurer withdraws them or files a revised Tennessee Filing Adoption Form.
6. To the extent that an insurer's final rates are determined solely by applying its loss cost adjustments, as presented in the Tennessee Filing Adoption Form, to the prospective loss costs contained in a rate service organization's Filing and printed in the rate

service organization's rating manual, the insurer need not develop or file its final rate pages with the 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 cost adjustments to a rate service organization's prospective loss costs, the insurer need not file those pages with the Commissioner. If the rate service organization does not print the loss costs in its rating manual, the insurer must submit its rates to the Commissioner. ISO will not include prospective loss cost displays in their Personal Auto and Homeowners Manuals. Insurers must file these rates with the Insurance Department.

7. For future Loss Cost Filings filed by the rate service organization:

- If the insurer HAS filed to have its loss cost adjustments remain on file, applicable to subsequent Loss Cost Filings, and a new Reference Filing is filed 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 under the time frames specified in I.(B) of this Bulletin.   |
| 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 a revised Tennessee Filing Adoption Form under the time frames specified in I.(B) of this Bulletin.   |
| 4. the insurer decides NOT to revise its rates using the prospective loss costs...  | 4. the insurer must notify the Insurance Department under the time frames specified in I.(B) of this Bulletin.   |

- If an insurer has NOT elected to have its loss cost adjustments remain on file, applicable to future prospective loss costs filings, and a new Loss Cost Filing is filed, and

- | If...   | Then...   |
|---|---|
| 1. the insurer decides to use the prospective loss costs to revise its rates... | 1. the insurer must file a Tennessee Filing Adoption Form including its effective date under the time frames specified in I.(B) of this Bulletin. |
| 2. the insurer decides NOT to use the revisions...                              | 2. the insurer does not file anything with the Insurance Department.  |

#### IV. Rules and Supplementary Rating Information

(A) Rate service organizations may develop and make filings of rules and supplementary rating information as provided in Section 56-5-306(a) and Section 56-5-305 and may print and distribute manuals of rules and supplementary rating information.

(B) Any insurer may satisfy its obligation to make filings of supplementary rating information by becoming a member or subscriber of a licensed rate service organization and by authorizing the Commissioner to accept such filings on its behalf. The insurer's supplementary rating information shall be that filed from time to time by the rate service organization, subject to any modifications filed by the insurer.

(C) If an insurer has authorized rate service organizations to file on its behalf, and a new filing of rules and supplementary rating information is filed 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 under the time frames specified in I.(B) of this Bulletin. |
| 3. the insurer decides not to use the revision...   | 3. the insurer must notify the Insurance Department under the time frames specified in I.(B) of this Bulletin.                       |

4. the insurer decides to use the revision with modification...
4. the insurer must file the modification with the Insurance Department, specifying the basis for the modification, under the time frames specified in I.(B) of this Bulletin.

V. Section 56-5-307 (e) of the Tennessee Statute reads as follows:

REFERENCE FILINGS. An insurer may file by reference to rates, supplementary rate information, supporting information, and policy forms and endorsements filed by and effective for another insurer or a rate service organization.

- (a) This bulletin is not applicable to insurers who are unaffiliated with the rate service organization.
- (b) All proposed changes by insurers filing under this section must be presented to the Tennessee Insurance Department for consideration.

Date: \_\_\_\_\_

Space Reserved for Insurance Department Use

INSURER RATE FILING  
ADOPTION OF RATE SERVICE ORGANIZATION  
PROSPECTIVE LOSS COSTS  
TENNESSEE FILING ADOPTION FORM

1. INSURER NAME \_\_\_\_\_  
 ADDRESS \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

PERSON RESPONSIBLE FOR FILING \_\_\_\_\_  
 TITLE \_\_\_\_\_ TELEPHONE # \_\_\_\_\_

2. INSURER NAIC # \_\_\_\_\_

3. LINE OF INSURANCE \_\_\_\_\_

4. RATE SERVICE ORGANIZATION \_\_\_\_\_

5. RATE SERVICE ORGANIZATION FILING # \_\_\_\_\_

6. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named rate service organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss costs in the captioned 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. ATTACH "SUMMARY OF SUPPORTING INFORMATION FORM"  
 (Use a separate Summary for each insurer-selected loss cost multiplier.)

10. 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 rate service organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the rate service organization'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 rate service organization's prospective loss costs. This authorization is effective until disapproved by the Commissioner, or amended or withdrawn by the insurer.

The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the above rate service organization filing.

Insurer Name: \_\_\_\_\_  
NAIC Number: \_\_\_\_\_

Date: \_\_\_\_\_

**TENNESSEE  
INSURER RATE FILING  
ADOPTION OF RATE SERVICE ORGANIZATION 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 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 "EXPENSE CONSTANT SUPPLEMENT" OR OTHER SUPPORTING INFORMATION. DO NOT COMPLETE ITEMS 3 - 7 BELOW.

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\*:  $(2B \div 4B) =$  \_\_\_\_\_

\*Explain how investment income is taken into account. (Reference Tennessee Rule Sec. 0780-1-21.)

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 \_\_\_\_\_ %

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.



Insurer Name: \_\_\_\_\_

Date: \_\_\_\_\_

NAIC Number: \_\_\_\_\_

TENNESSEE  
EXPENSE CONSTANT SUPPLEMENT

CALCULATION OF COMPANY LOSS COST MULTIPLIER WITH EXPENSE CONSTANTS

3. Development of Expected Loss Ratio. (Attach exhibit detailing insurer expense data and/or other supporting information.)

	Overall	Selected Provisions Variable	Fixed
A. Total Production Expense	_____	_____	_____
B. General Expense	_____	_____	_____
C. Taxes, Licenses & Fees	_____	_____	_____
D. Underwriting Profit & Contingencies	_____	_____	_____
E. Other (explain)	_____	_____	_____
F. TOTAL	_____	_____	_____

- 4 A. Expected Loss Ratio:  $ELR=100\% - \text{Overall } 3F =$  \_\_\_\_\_
- B. ELR expressed in decimal form = \_\_\_\_\_
- C. Variable Expected Loss Ratio  $VELR=100\% - \text{Variable } 3F =$  \_\_\_\_\_
- D. VELR in decimal form = \_\_\_\_\_

5. Formula Expense Constant:  
 $[(1.00 \div 4B) - (1.00 \div 4D)] \times \text{Average Underlying Loss Cost} =$  \_\_\_\_\_

Formula Variable Loss Cost Multiplier\*:  $(2B \div 4D) =$  \_\_\_\_\_

\*Explain how investment income is taken into account. (Reference Tennessee Rule Sec. 0780-1-21.)

6. Selected Expense Constant = \_\_\_\_\_

Selected Variable Loss Cost Multiplier = \_\_\_\_\_

7. Explain any differences between 5 and 6:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. Rate level change for the coverages to which this page applies \_\_\_\_\_ %