

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

LETTER

WITHDRAWN

May 28, 1982

By Administrative
Letter 1990-6
~~ADMINISTRATIVE~~
LETTER 1982-12

TO: ALL INSURANCE COMPANIES LICENSED TO WRITE WORKMEN'S
COMPENSATION INSURANCE IN VIRGINIA.

ALL GROUP SELF-INSURANCE ASSOCIATIONS LICENSED IN
VIRGINIA FOR WORKMEN'S COMPENSATION INSURANCE

RE: Prior Approval Rating Law
Chapter 143 (S223), 1982 Acts of Assembly
Rate Deviations - Workmen's Compensation Insurance

By Administrative Letter 1982-5, dated April 30, 1982, I forwarded to you summaries of statutes enacted or amended and re-enacted by the General Assembly of Virginia during its 1982 Session, including the above captioned which becomes effective on July 1, 1982, and which permits insurance companies and group self-insurance associations to apply to the State Corporation Commission to file and use a "rate" deviation in the writing of Workmen's Compensation Insurance and Employer's Liability Insurance.

As regards such insurance, the enactment of new Section 38.1-255.2 of the Code provides, in part, that any insurance company or any group self-insurance association may make written application to the Commission for permission to file and use a uniform percentage decrease deviation to be applied to the premiums produced by the rating systems approved by the Commission. Such application shall specify the basis for the deviation and shall be accompanied by all of the supporting data upon which the application relies. In considering the application for permission to file and use such uniform percentage decrease deviation, the Commission shall give consideration to all available statistics and the principles of rate making as provided in Article 4 of Chapter 6 of Title 38.1.

It is presumed that a company and an association will submit, on or after July 1, 1982, applications for a uniform percentage decrease deviation applicable to its entire book of Workmen's Compensation Insurance and Employer's Liability Insurance business in Virginia, based upon a savings in otherwise applicable expenses.

As such, the basis for the deviation shall be limited to the difference between the lower Virginia expense needs of the individual company or association (which "needs" must be fully documented by supporting information and data covering a period of at least three years, if writing in Virginia for that period) as regards the expense items of Acquisition and Field Supervision, General Expenses, Taxes, Licenses and Fees, and Loss Adjustment Expense (related to premium), and the higher provision for such Virginia expenses in the Manual rates approved by the Commission and in effect at the time the downward deviation is approved to become effective.

In the event that any company or association desires to utilize loss experience in support of its proposed deviation, or if it proposes to apply the deviation only to a particular classification (or several classifications) of risk(s), then, in addition to the information and data required pursuant to the immediate preceding paragraph, complete actuarial supporting information and data, which must be actuarially credible, must also be submitted.

The following guidelines will be of assistance to companies and associations, and to rate service organizations, both in applying for and in the application of proposed rate deviations:

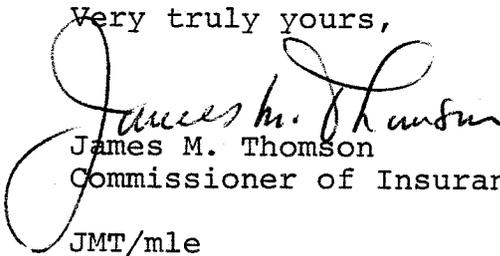
1. The deviation shall be applied to the Manual premium after application of the experience modification, but before premium discount or Retrospective Rating Plan adjustment. The deviated premium shall be rounded to the nearest dollar (\$1.00) with .50 of a dollar being rounded upward.
2. The deviation percentage shall not be applied to:
 - (a) Expense Constant
 - (b) Loss Constant
 - (c) Minimum Premium
3. The deviation percentage shall be applied to:
 - (a) Aircraft operation - passenger seat surcharge
 - (b) Premium for higher limits under Coverage B

- (c) Short rate penalty premium
 - (d) Additional premium resulting from flat increase on outstanding policies
 - (e) Non-ratable supplemental loadings
4. The calculation of an account's experience modification factor will not be affected by the deviation, as the modification will be calculated from standard Manual premiums.
 5. Premium Discount percentages ("X" or "Y") as selected by the company or association will apply to the Virginia premium after application of the deviation. In the premium discount rule, the term "total standard premium" shall mean the total premium after deviation for all States covered under the policy or policies.
 6. For retrospective rating plans, "standard premium" shall mean that premium which is determined by application of "standard rates", and standard rates shall mean the authorized rates for the risk. Such authorized rates are the Manual rates with the approved deviation applied.
 7. In determining application of a loss constant \$500 of premium shall be premium after application of the deviation.
 8. Eligibility point for three-year fixed rate policies shall continue at \$750 or less per annum of premium at Manual rates.
 9. An approved deviation shall not be applied to assigned risk business, or to any classification for which the Virginia Compensation Rating Bureau does not file a rate, such as Jones Act and FELA coverages, even if rates therefor are indicated in the approved Manual.
 10. Once the Commission has issued an order approving a deviation, the deviation shall remain in effect for a period of one year from the date of such approval (unless terminated sooner with the approval of or by the Commission), at which time the deviation shall automatically expire. To continue or modify the level of deviation, a complete submission must be received and approved by the Commission prior to being used.

To facilitate the review of deviation applications made by insurance companies or associations, kindly find attached hereto a form, identified as VA WCD-1 (7/82), on which should be summarized the "needed" expense supporting information and data and other calculations and components, together with a sheet of explanations and instructions relative thereto, identified as VA WCD-2 (7/82).

Should you have any questions concerning the foregoing, or the attachments hereto, kindly communicate same to the Bureau in writing.

Very truly yours,


James M. Thomson
Commissioner of Insurance

JMT/mle

attachments

VIRGINIA

SUMMARY - RATE DEVIATION

WORKMEN'S COMPENSATION INSURANCE

INSURANCE COMPANY OR
ASSOCIATION NAME: _____

I. RATE DEVIATION CALCULATION:

- | | | |
|-----------------------------------|-------|-----|
| (a) Net Expense Need | _____ | (a) |
| (b) "Build-Back" | _____ | (b) |
| (c) Manual Expense Need (a) + (b) | _____ | (c) |
| (d) Manual Expense Provision | _____ | (d) |

Components of Deviation (Credit)

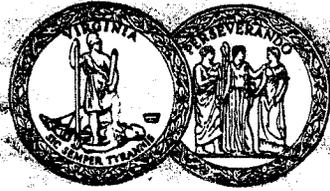
- | | | |
|---|-------|-----|
| (e) Manual Expense Savings (c) - (d) | _____ | (e) |
| (f) Estimated Expense Constant Income* | _____ | (f) |
| (g) Removal of Profit and Contingency Allowance from Manual Premium** | _____ | (g) |
| (h) Additional Contingency Allowance in Recognition of Prior Loss Experience* | _____ | (h) |
| Deviation Justified (e) + (f) + (g) + (h) | _____ | % |
| Deviation Proposed to be Used | _____ | % |

II. PROPOSED EFFECTIVE DATE: _____

* Show as credit (i.e., negative)

** Maximum Credit: 2.5%

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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

May 28, 1982

INSTRUCTIONS AND EXPLANATIONS

SUMMARY - RATE DEVIATION

WORKMEN'S COMPENSATION INSURANCE

To facilitate the review of deviation applications, and of the supporting information and data, the following should be utilized to assure the proper completion of Form VA WCD-1 (7/82).

I. RATE DEVIATION CALCULATION

A summary of all contributing factors presented on accompanying worksheets shall be set forth under that section entitled "Rate Deviation Calculation."

(a) Net Expense Needed:

Reflecting Acquisition and Field Supervision, General, and Loss Adjustment Expense, as well as Taxes, Licenses and Fees, is to be developed for the insurer or association for at least three years. Explain any adjustment not reflected in the data (Example: Proposed changes in commission scales).

(b) "Build-Back":

The insurer or association should calculate a "Build-Back" (reflecting premium discounting) on its own premium size distribution. If an estimated "Build-Back" is utilized (Example: Based on a study of insurers or associations with a similar premium size distribution), such should be explained, and supporting information and data provided.

(c) Manual Expense Need:

(a) + (b)

(d) Manual Expense Provision:

Excluding Profit and Contingencies allowance of 2.5%.

(e) Manual Expense Savings:

(c) - (d) An expense need less than the manual provision produces a credit (i.e., negative amount).

(f) Estimated Expense Constant Income:

Show as credit. A copy of the calculation must be provided.

(g) Removal of Profit and Contingencies Allowance:

The insurer or association may elect to yield all or a part of this allowance.

Maximum credit: 2.5%, the formula provision.

(h) Additional Contingency Allowance in Recognition of Prior Loss Experience

Contribution based on historical underwriting results. If used, complete actuarial supporting data and information, which must be actuarially credible, must be provided.

II. PROPOSED EFFECTIVE DATE:

Enter date the deviation is proposed to apply to all new and renewal policies effective on and after such date.