

# COMMONWEALTH OF VIRGINIA

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November 8, 2006

## ADMINISTRATIVE LETTER 2006-16

**To: All Property and Casualty Insurers and Rate Service Organizations Licensed in Virginia**

**Re Prospective Loss Cost Filing Requirements for Lines of Insurance Other than Workers' Compensation; Withdrawal of Administrative Letter 1990-5**

By this administrative letter, Virginia is adopting the National Association of Insurance Commissioner's (NAIC) forms for loss cost filings for lines of insurance **other than** workers' compensation insurance. These changes are in keeping with the Bureau of Insurance's (Bureau) and the NAIC's speed-to-market and uniformity initiatives.

Effective immediately, the Bureau is adopting the NAIC's [Other than Workers' Compensation Loss Cost Filing Document Cover](#) form (edition 2/20/06), [Expense Constant Supplement](#) form (edition August 16, 2004), and [Loss Cost Filing Document—Other Than Workers' Compensation - PC IRF Calculation of Company Loss Cost Multiplier](#) (PC IRF) form (edition August 16, 2004). It is important to note that while Bureau is adopting the NAIC's loss cost filing forms, we are not changing our current loss costs filing procedures.

For consistency with Virginia's regulatory requirements, the Bureau is replacing the NAIC Loss Cost Memorandum (edition July 16, 2004) with the attached Virginia Loss Cost Memorandum (edition November 1, 2006). In addition, the NAIC Loss Cost Data Entry Document and the accompanying NAIC Loss Cost Data Entry Document Instructions can be used in Virginia and are available at the NAIC's website at [www.naic.org/loss\\_cost.htm](http://www.naic.org/loss_cost.htm), but insurers are not required to submit either of these two forms to the Bureau.

**In order to accommodate the transition from the VA-RFA-1 (7-90) form to the NAIC Loss Cost PC IRF filing form, please note that:**

- (i) none of the currently filed loss cost adjustment factors (e.g., loss cost multipliers) submitted using the Loss Cost Adoption Form VA-RFA-1 (7-90) will be affected by the changes in the loss cost filing forms until such time as the company makes a new filing; and
- (ii) the Bureau will continue to accept Loss Cost Adoption Form VA-RFA-1 (7-90) until January 1, 2007. However, as of January 1, 2007, filers will be required to use the NAIC PC IRF form, Calculation of Company Loss Cost Multiplier.

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The actuarial certification form, COF-1 (05/05) as provided in [Administrative Letter 2005-01](#), must be submitted with all rate-related filings, which would include loss costs and loss cost multiplier filings. Please note that the rates (i.e., the combination of the loss costs and the loss cost multiplier) will apply to policies in accordance with either the effective date of the rate service organization's prospective loss costs or the date selected by the insurer and acknowledged by the Bureau. Refer to [Administrative Letter 2006-8](#) for information pertaining to the company's selected method of implementation. Additional information about filing requirements may be obtained by visiting the Bureau's website at [www.scc.virginia.gov/division/boi](http://www.scc.virginia.gov/division/boi). In addition, please refer to the [Virginia Property and Casualty Filing Guidelines Handbook](#) for the rules and rates that are currently exempt from rate filing requirements.

For information regarding the filing of loss cost multipliers for workers' compensation insurance, filers should refer to [Administrative Letter 2005-03](#). Further, Administrative Letter 1990-5 contains provisions that are no longer applicable and is, therefore, withdrawn.

Questions pertaining to Administrative Letter 2006-16 should be directed to the Property and Casualty Division's Rates and Forms Sections at (804) 371-9965 (personal lines) or (804) 371-9298 (commercial lines).

Cordially,

A handwritten signature in cursive script, appearing to read "Alfred W. Gross".

Alfred W. Gross  
Commissioner of Insurance

**VIRGINIA LOSS COST MEMORANDUM—  
OTHER THAN WORKERS' COMPENSATION  
(Effective November 8, 2006)**

**Virginia Prospective Loss Costs Filing Procedures**

This memorandum specifies the framework under which rate service organizations (RSOs) and insurers participating in RSOs operate in a loss cost system for other than workers' compensation.

Under this system, RSOs do not develop or file advisory final rates but instead develop and file advisory prospective loss costs and supporting actuarial and statistical data, which are receipt acknowledged and available for use by the RSO's participating insurers. Each insurer must individually determine the rates it will use as a result of its own independent company decision-making process. An RSO develops and files rules, relativities and supplementary rating information on behalf of its participating insurers.

For the purposes of these instructions, the following definitions apply:

- 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, classifications, rating schedules, minimum premiums or minimum premium rules, policy fees, rating rules, rate-related underwriting rules, experience rating plans, statistical plans and any other similar information needed to determine the applicable rate in effect or to be in effect.

## Section I. Rates/Loss Costs

### A. RSO Action

RSOs do not develop or file advisory final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for all lines, RSOs develop and file with the Virginia State Corporation Commission Bureau of Insurance (Bureau), in accordance with relevant statutory provisions, a Reference Filing containing advisory prospective loss costs and supporting actuarial and statistical data.

After a Reference Filing has been acknowledged by the Bureau, the RSO will provide its participating insurers with a copy of the Reference Filing.

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

RSOs do not develop or file any minimum premiums.

### B. Insurer Action

Each insurer must individually determine the final rates it will use 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 RSO decides to use the prospective loss costs in a Reference Filing in support of its own filing, the insurer should make a filing using the NAIC's Loss Cost Filing Document—Other Than Workers' Compensation - PC IRF Calculation of Company Loss Cost Multiplier form (hereinafter referred to as the PC IRF). The insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the PC IRF.

On the PC IRF, the insurer should enter only the most recent Reference Filing number that will be adopted; all previous loss costs are considered to be "brought forward" and, therefore, adopted.

Insurers may file modifications of the prospective loss costs in the Reference Filing based on their own anticipated experience. An explanation must be provided for any modifications (upwards or downwards) of the prospective loss costs in the Reference Filing.

Examples:

Below are two examples of how to apply a company's loss cost modification factor to the RSO'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, the company must file the minimum premiums it proposes to use.

The insurer may request to have its loss cost adjustments remain on file so that the filed loss cost adjustments automatically apply to all future prospective loss costs by checking the first block under item 1 of the PC IRF. The company's rates are then the combination of the new prospective loss costs and the company's loss cost adjustment factors as of the effective date of the RSO's Reference Filing. The insurer need not file anything further with the Bureau unless this situation changes.

If an insurer that has filed to have its loss cost adjustments remain on file with the Bureau intends to delay, modify, or not adopt a particular RSO's Reference Filing, the insurer must make an appropriate filing with the Bureau. Insurers are required to notify the Bureau by filing either an amended PC IRF or other written notice of their intentions.

The insurer's filed loss cost adjustments will remain in effect until the insurer withdraws them or files a revised PC IRF form.

Insurers may file such other information that the company deems relevant and shall provide such other information as may be requested by the Bureau.

To the extent that an insurer's final rates are determined solely by applying its loss cost adjustments, as presented in the PC IRF form, to the prospective loss costs contained in a RSO's Reference Filing and printed in the RSO's rating manual, the insurer should NOT file its final rate pages with the Bureau. If an insurer chooses to print and distribute final rate pages for its own use, based solely upon the application of filed loss costs, these pages should not be filed with the Bureau.

If the RSO does not provide loss costs for certain classes or coverage in its manual, the insurer must file final rates for these classes or coverage UNLESS the rates for such classes or coverage are exempted from filing requirements by statute or administrative order. If an insurer intends to use its own final rates and/or supplementary rate information for any segment of its business, the rates and supplementary rate information must be filed with the Bureau in manual page format.

If an insurer decides to file certain final rates as *exceptions* that will be used instead of the loss costs and adjustments on file, these exceptions should be filed in manual page format and should also be noted in item 2 of the PC IRF form. For example: "Line, Subline, Coverage, Territory, Class, etc. combination to which this page applies: Commercial General Liability (*except for Medical Payments – see page E-2*)." This indicates that the insurer's loss cost adjustments on file do not apply to their final rate exceptions.

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

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 Bureau. 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 subsequent effective date.	2. The insurer must notify the Bureau in writing of its effective date on or 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 a revised PC IRF form on or 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 file a PC IRF form on or before the effective date of the loss costs. The <i>second</i> block must be checked in item 1, indicating they will use the Loss Costs Reference Filing at the top of the page until the Bureau is notified otherwise.

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

If—	Then—
1. The insurer decides to use the prospective loss costs to revise its rates.	1. The insurer must file a PC IRF form, including its effective date.
2. The insurer decides NOT to use the revisions.	2. The insurer does not file anything with the Bureau.

**Section II. Supplementary Rating Information**

A. RSO Action

The RSO files with the Bureau 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, classification relativities or similar factors but excludes minimum premiums.

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

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

B. Insurer Action

If an insurer has authorized an RSO to file on its behalf, and a new filing of rules, relativities and supplementary rating information is filed and acknowledged 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 Bureau.
2. The insurer decides to use the revisions as filed BUT with a different effective date.	2. The insurer must notify the Bureau in writing of its effective date on or before the RSO's effective date.
3. The insurer decides not to use the revision.	3. The insurer must notify the Bureau on or before the RSO's effective date. The insurer must submit a revised PC IRF form changing its election to have the loss cost adjustment apply to the Reference Document named in the document.
4. The insurer decides to use the revision with modifications.	4. The insurer must file the modification with the Bureau specifying the basis for the modification and the insurer's proposed effective date if different than the effective date filed by the RSO.

**Section III. Loss Cost Data Entry Document**

If an insurer elects to use or complete the Loss Cost Data Entry Document, it should not be included in the filing. In addition, insurers should not submit the Virginia Prospective Loss Costs Filing Procedures with filings.

**Section IV. Inquiries**

The Bureau has modified this form for compliance and consistency with Virginia regulatory requirements. Questions pertaining to these requirements should be directed to the Property and Casualty Division's Rates and Forms Sections at (804) 371-9965 (personal lines) or (804) 371-9298 (commercial lines).