

COMMONWEALTH OF VIRGINIA



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COMMISSIONER OF INSURANCE

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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

May 4, 1990

ADMINISTRATIVE LETTER 1990-6

TO: ALL COMPANIES LICENSED TO WRITE WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE

RE: WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE RATE DEVIATIONS

Virginia Code Section 38.2-2009 provides, in part, that any insurer may apply to the Commission for permission to use a uniform percentage decrease deviation to be applied to the Workers' Compensation and Employers' Liability Insurance premiums produced by the rating systems approved by the Commission. In considering an insurer's request to use a deviation, the Commission shall give consideration to all available statistics and the principles of rate making as provided in Article 2 of Chapter 20 of Title 38.2.

The decrease deviation will be applicable to the insurer's entire writings of Workers' Compensation and Employers' Liability Insurance, or to a particular classification(s) of risk(s) if actuarially supported.

The deviation must be justified based on the lower Virginia expense needs and loss ratio of the individual insurer or group, as compared to the higher provisions for Virginia expenses and loss ratio utilized in the rates approved by the Commission for use by all companies and in effect at the time the downward deviation is proposed to become effective.

The following guidelines will be of assistance to insurers in applying for and in the application of proposed rate deviations:

1. The deviation must be applied to the manual premium after application of the experience modification, but before premium discount or retrospective rating plan adjustment.

2. In the premium discount rule, the term "total standard premium" shall include the application of the deviation.
3. In the retrospective rating plans, the term "standard premium" shall include the application of the deviation.
4. The deviation shall not be applied to the following:
 - (a) Expense Constant;
 - (b) Minimum Premium;
 - (c) Three-year fixed rate policies; or
 - (d) Assigned risk business.
5. The deviation shall be applied to the following:
 - (a) Aircraft operation-passenger seat surcharge;
 - (b) Premium for higher limits under Employers' Liability coverage;
 - (c) Short rate penalty premium;
 - (d) Premiums resulting from changes during the policy period or audits; and
 - (e) Non-ratable supplemental loadings.
6. The calculation of a risk's experience modification factor will not be affected by the deviation.
7. 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, insurers will be required to complete Parts I through V of the attached form VA WCD-1 (7/90). Part VI contains the required factors from the latest approved National Council on Compensation Insurance rate filing effective November 1, 1988. Updates to Part VI will be provided whenever necessary due to a rate level change.

Administrative Letter 1990-6
May 4, 1990
Page Three

Insurers will be required to file their applications for a deviation in the aforementioned manner on all requests submitted on or after July 1, 1990, at which time Administrative Letter 1982-12 will be withdrawn.

In order to document the premiums earned by insurers with approved deviations in this Commonwealth, insurers will be required to report to the Commission aggregated policy year data (i.e., experience of policies that become effective January 1, 19XY to December 31, 19XY). Such data must be reported for each year in which an insurer had (or has) an approved deviation. Each policy year wherein an approved deviation exists must be reported for the first time valued as of December 31, 19XY. The report must be submitted by April 1, 19XY+1. Two subsequent valuations of policy year 19XY must be submitted by April 1, 19XY+2 and April 1, 19XY+3 (i.e., valued as of December 31, 19XY+1 and December 31, 19XY+2, respectively).

Where an insurer is part of an insurance group, all reports are to be only for the experience of the individual insurer. Reporting on a consolidated group basis is not acceptable unless all insurers within the group had the same deviations approved for the same effective dates. All reports are to be made on the attached form VA WCD-2 (7/90), and the first report shall be received by the Commission no later than April 1 of the ensuing year.

Experience under the U.S. Longshoremen's and Harbor Workers' Act, and experience for Underground Coal Mines and Excess Workers Compensation policies must be excluded.

Assigned risk servicing carriers are reminded that deviations are not approved applicable to assigned risk business, and such business must be excluded from the report.

Sincerely,

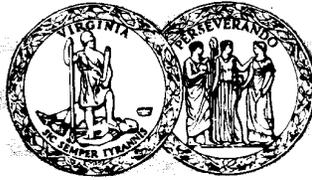


Steven T. Foster
Commissioner of Insurance

STF:krm

Attachments

COMMONWEALTH OF VIRGINIA



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COMMISSIONER OF INSURANCE

Box 1157
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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

RE: Requirements for Insurance Companies Filing Rate Deviations for Workers Compensation Insurance

This letter identifies the information required by the Bureau of Insurance to review proposed rate deviations. Review by the Bureau will be expedited if filers provide their supporting information in the format indicated.

This letter also provides industrywide Virginia workers compensation experience and certain information underlying approved rates (See Part VI).

In order to facilitate review of proposed deviations by Bureau staff, it is required that deviations be divided into the following three components:

1. Deviation resulting from loss experience.
2. Deviation resulting from allowance for loss adjustment expense (as a percent of expected losses).
3. Deviation resulting from allowance for overhead expense (including any deviation resulting from a company's proposed change in allowance for underwriting profit and contingency).

An insurance company seeking approval of a rate deviation should submit completed PARTS I through V along with whatever additional information it feels appropriate. Its filing should be submitted to:

Property & Casualty Division
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23209

STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

Name of Insurance Company: _____
Proposed Effective Date of Deviation: _____

PART I-A

**ANALYSIS OF LOSS EXPERIENCE
PRIOR TO ADJUSTMENT FOR VIRGINIA ASSIGNED RISK BUSINESS**

(1)	(2)	(3)	(4)	(5)
Experience of Company: (omit 000's)				
<u>Calendar Year</u>	<u>Virginia Standard Earned Premium</u>	<u>Virginia Actual Incurred Losses</u>	<u>Loss Ratio (3)/(2)</u>	<u>NCCI Virginia Loss Ratio</u>
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
Total/Wgt.Avg.	_____	_____	_____	_____*
a.	Un-weighted Average Company Loss Ratio for Years 19__, through 19__, above			_____
b.	Un-weighted Average NCCI Virginia Loss Ratio for same period as (a)			_____

Notes:

* {Sum of [Col.(2) x Col.(5) for each year]} / sum of Col.(2).
Col.(2) & (3) - Premium (at NCCI rate level) and losses in columns (2) and (3) should be the same as reported to NCCI on its Call for Calendar Year Experience for the Twelve Months Ending December 31 of each year.

Line (a) - The carrier may select the number of years to include in item (a). However, total standard earned premium for all years shown (starting with the most current) must be at least \$50,000,000, or five years must be shown. The same years must be included in determining item (b).

Col.(5) - See Part VI attachment for NCCI Virginia Loss Ratios.

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART I-B

ASSIGNED RISK EXPERIENCE
(Applicable to All Companies that are Participants in Virginia
of the National Workers Compensation Reinsurance Pool)

(1)	(2)	(3)	(4)
Calendar Year	Experience Ceded to Company From NWCRP:		
	Virginia Standard Earned Premium	<u>(omit 000's)</u> Virginia Actual Incurred Losses	Loss Ratio <u>(3)/(2)</u>
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
Total/Avg.	_____	_____	_____

Notes:

Col. (2) & (3) - Premium and losses in columns (2) and (3) should be the same as reported to Company by National Workers Compensation Reinsurance Pool for twelve months ending December 31 of each year. Premium is after subtraction of servicing carrier allowance.

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART I-C

ADJUSTMENT FOR ASSIGNED RISK EXPERIENCE
(Applicable Only to Companies that are Servicing Carriers in Virginia
for the National Workers Compensation Reinsurance Pool)

(1)	(2)	(3)	(4)
	Experience Ceded by Company to the NWCRP:		
	<u>(omit 000's)</u>		
Calendar Year	Virginia Standard Earned Premium	Virginia Actual Incurred Losses	Loss Ratio <u>(3)/(2)</u>
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
Total/Avg.	_____	_____	_____

Notes:

Col. (2) & (3) - Premium and losses in columns (2) and (3) should be the same as reported by Company to National Workers Compensation Reinsurance Pool for twelve months ending December 31 of each year.

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART I-D, Page 1

**ANALYSIS OF LOSS EXPERIENCE
 AFTER ADJUSTMENT FOR VIRGINIA ASSIGNED RISK BUSINESS**

(1)	(2)	(3)	(4)	(5)
Calendar Year	Experience of Company: (omit 000's)			
	Modified Virginia Standard Earned Premium	Modified Virginia Actual Incurred Losses	Modified Loss Ratio (3)/(2)	NCCI Virginia Loss Ratio
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
19__	_____	_____	_____	_____
Total/Wgt.Avg.	_____	_____	_____	_____*

* {Sum of [Col.(2) x Col.(5) for each year]} / sum of Col.(2).

- a. Un-weighted Average Company Loss Ratio for Years 19____, through 19____, above _____
- b. Un-weighted Average NCCI Virginia Loss Ratio for same period as (a) _____
- c. Indicated Deviation Based on Loss Experience (a)/(b) _____
- d. Deviation Based on Loss Experience Proposed By Carrier (show as a factor) _____

Notes for Part I-D - See Part I-D, Page 2

PART I-D, Page 2

Notes for PART I-D

Col.(2) & (3) - Premium and losses in columns (2) and (3) should be the sum of data reported on PARTS I-A and I-B, minus the data reported on PART I-C, for the Twelve Months Ending December 31 of each year.

Col. (5) - See Part VI attachment for the NCCI Virginia Loss Ratios.

Line (a) - The carrier may select the number of years to include in item (a). However, total standard earned premium for all years shown (starting with the most current) must be at least \$50,000,000, or five years must be shown. The same years must be included in determining item (b).

Line (d) - Attach explanation if proposed deviation based on loss experience is outside of range defined by carrier's average difference in loss ratio [line (c)] and 1.000.

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART II

ANALYSIS OF LOSS ADJUSTMENT EXPENSE

(1) Calendar Year	(2) Incurred Losses	(3) Experience of Company: (omit 000's) Incurred Loss Adjustment Expense	(4) Ratio (3)/(2)
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
Total/Avg.	_____	_____	_____

- a. Un-weighted Average Company Ratio of Incurred Loss Adjustment Expense to Incurred Losses for the last three calendar years. _____
- b. Allowance for Loss Adjustment Expense Underlying current Rates as a Ratio To Expected Losses. _____
- c. Indicated Deviation Based on Loss Adjustment Expense $[1.0+(a)]/[1.0+(b)]$ _____
- d. Deviation Based on Loss Adjustment Expense Proposed By Carrier (show as a factor) _____

Notes:

Col.(2) - Virginia direct incurred losses (medical and indemnity). This data can be found on the insurer's response to the NCCI Call for Calendar Year Expense Data (item (5)).

Col.(3) - Virginia allocated and un-allocated loss adjustment expenses. This data can be found on the insurer's response to the NCCI call for Calendar Year Expense Data (the sum of items (6) and (7)).

Line (b) - See Part VI attachment for current allowance in manual rates.

Line (d) - Attach explanation if proposed deviation based on loss adjustment expense is outside of range defined by carrier's average difference in loss adjustment expense [line (c)] and 1.000.

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART III - Page 1

ANALYSIS OF ALLOWANCE FOR UNDERWRITING PROFIT & CONTINGENCY (P&C)

- a. Allowance for P&C (as a percent of earned premium) underlying Virginia current rates _____%
- b. Allowance proposed by company as part of its filing for a deviation from NCCI manual rates _____%

Special Note to Company - a company filing a deviation is only required to complete the remainder of this page and Part III, pages 2 & 3 if it is proposing to use an allowance for underwriting profit and contingency (P&C) other than the allowance currently approved for NCCI manual rates.

- | | | |
|--|----------|----------|
| | 19 _____ | 19 _____ |
| c. Pre-tax (Federal Income Tax) return on invested assets | _____% | _____% |
| d. After tax return on invested assets | _____% | _____% |
| e. Ratio of reserves (unearned premium reserve plus loss reserve) to surplus | _____ | _____ |
| f. Target return on surplus as of effective date of proposed deviation | | _____% |

Notes:

Line (a) - See Part VI attachment for current allowance in manual rates.
Lines (c) and (d) - Average for all property and casualty lines for the year (two latest available years).

Line (e) - As of December 31, for all property and casualty business combined, show ratios to 2 decimal places (two latest available years).

Pages 2 & 3 - Show dollars in thousands. Show Virginia experience.

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART III - Page 2

**Collection and Payout Patterns
 Policy Year Basis (omit 000's)**

(see "special note" on Part III - page 1)

Time Interval in Years	Written Premium	Earned Premium	Collected Premium	Paid Loss & LAE Expenses	Taxes	Other Expenses
-1 to 0	_____	_____	_____	_____	_____	_____
0 to 1	_____	_____	_____	_____	_____	_____
1 to 2	_____	_____	_____	_____	_____	_____
2 to 3	_____	_____	_____	_____	_____	_____
3 to 4	_____	_____	_____	_____	_____	_____
4 to 5	_____	_____	_____	_____	_____	_____
5 to 6	_____	_____	_____	_____	_____	_____
6 to 7	_____	_____	_____	_____	_____	_____
7 to 8	_____	_____	_____	_____	_____	_____
8 to 9	_____	_____	_____	_____	_____	_____
9 to 10	_____	_____	_____	_____	_____	_____
10 to 11	_____	_____	_____	_____	_____	_____
11 to 12	_____	_____	_____	_____	_____	_____
12 to 13	_____	_____	_____	_____	_____	_____
13 to 14	_____	_____	_____	_____	_____	_____
14 to 15	_____	_____	_____	_____	_____	_____

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART III - Page 3

Collection and Payout Patterns - Continued
Policy Year Basis (omit 000's)

(see "special note" on Part III - page 1)

Time Interval in Years	Written Premium	Earned Premium	Collected Premium	Paid Loss & LAE Expenses	Taxes	Other Expenses
15 to 16	_____	_____	_____	_____	_____	_____
16 to 17	_____	_____	_____	_____	_____	_____
17 to 18	_____	_____	_____	_____	_____	_____
18 to 19	_____	_____	_____	_____	_____	_____
19 to 20	_____	_____	_____	_____	_____	_____
20 to 21	_____	_____	_____	_____	_____	_____
21 to 22	_____	_____	_____	_____	_____	_____
22 to 23	_____	_____	_____	_____	_____	_____
23 to 24	_____	_____	_____	_____	_____	_____
24 to 25	_____	_____	_____	_____	_____	_____
Over 25	_____	_____	_____	_____	_____	_____

Name of Insurance Company: _____
 Proposed Effective Date of Deviation: _____

PART IV - Page 1

ANALYSIS OF OVERHEAD EXPENSE

Expense Item:	(a)	(b)	(c)
	Calendar Year:		
	19__	19__	19__
1. Direct Net Production Expense	____%	____%	____%
2. Direct Net General Expense	____%	____%	____%
3. "Build-Back" for Premium Discount	____%	____%	____%
4. Estimated Expense Constant Income (show as a credit)	____%	____%	____%
5. Taxes, Licenses and Fees	____%	____%	____%
6. Underwriting Profit & Contingency Allowance	____%	____%	____%
7. Total Expenses [(1)+(2)+(3)+(4)+(5)+(6)]	____%	____%	____%
8. Unwgt'd. Avg. Provision for Overhead Expense [(7a)+(7b)+(7c)]/3	= ____%		
9. Allowance for Overhead Expense Underlying Current Rates as a Percent of Standard Earned Premium After Adjustment to Reflect Carrier's Proposed Allowance For Underwriting Profit and Contingency 100.0% - {"x"% + ["y" - (PART III, Line b)]}	____%		
10. Indicated Deviation Due to Expenses Based Upon Company's Overhead Expense Experience [100% - (9)] / [100% - (8)]	____		
11. Deviation Based on Overhead Expense Proposed By Carrier (Show as a factor)	____		

Notes for PART IV - see PART IV, Page 2

PART IV - Page 2

Notes for Part IV

Line (1) - The ratio of Commissions and Other Acquisition costs to Standard Earned Premium. The ratio is to be developed for the insurer for at least three years. The data can be found in the insurer's response to the NCCI Call for Calendar Year Expense Data (expenses equal the sum of items (4A) and (4B), premiums equal item (3)).

Line (2) - The ratio of General Expenses to Standard Earned Premium. The General Expense ratio is to be developed for the insurer for at least three years. The data can be found in the insurer's response to the NCCI Call for Calendar Year Expense Data (expenses equal the sum of items (8A) and (8B)), premiums equal item(3)).

Line (3) - The insurer 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 with a similar premium size distribution), such should be explained, and supporting information and data provided.

Line (4) - Approximately equal to: $\{[\text{Expense constant} \times \# \text{ of Virginia policies}] \times [100\% - (1) - (6)]\} / \text{Standard Earned Premium}$.

Line (5) - Provide supporting documentation on those values not set by statutes.

Line (6) - From PART III, Line (b). This is the filing company's proposed allowance for profit and contingency.

Line (9) - "x" is permissible loss and loss adjustment ratio underlying current manual rates.
"y" is allowance for profit and contingency underlying current manual rates.

See Part VI attachment for values of "x" and "y".

Line (11) - Attach explanation if proposed deviation based on overhead expense is outside of range defined by carrier's average data [line (10)] and 1.000.

Name of Insurance Company: _____
Proposed Effective Date of Deviation: _____

PART V

**SUMMARY OF PROPOSED DEVIATION
& GENERAL INFORMATION**

(Note: lines 1, 2 and 3 are to be shown as factors)

- | | | | |
|----|--|------------------|-------------------|
| 1. | Deviation based upon loss experience [from PART I-D, line (d)] | Proposed _____ | Indicated _____ |
| 2. | Deviation based upon provision for loss adjustment expense [PART II, line (d)] | Proposed _____ | Indicated _____ |
| 3. | Deviation based upon provision for overhead expense (including provision for underwriting profit and contingency) [PART IV, line (11)] | Proposed _____ | Indicated _____ |
| 4. | Deviation proposed (1)x(2)x(3) | Proposed _____ | Indicated _____ |
| 5. | Deviation as a percent change from Virginia manual rates | Proposed _____ % | Indicated _____ % |
| 6. | Current approved deviation from manual rates | | _____ % |
| 7. | Effective date of current deviation | | _____ |
| 8. | Person to contact for information on this proposed deviation: | | |

Name & Title: _____

Address: _____

Phone Number: _____

Part VI

* VALUES TO ASSIST COMPLETION OF PARTS I-V

<u>Information Applicable to:</u>	<u>Item</u>
Part I-A, Col. (5) and Part I-D, Col. (5)	NCCI Virginia Loss Ratios: 1984 0.729 1985 0.741 1986 0.732 1987 0.710 1988 0.726
Part II, line (b)	Allowance for loss adjustment expense underlying current rates as a ratio to expected losses effective 11/1/88 is <u>0.099</u>
Part III, line (a)	Allowance for profit and contingency (as a percent of earned premium) underlying Virginia rates effective 11/1/88 is <u>-11.58%</u>
Part IV - Page 2, line (9)	Effective 11/1/88: "x" = 87.777% (see Part IV-page 2) "y" = -11.58% (see Part IV-page 2)

Issued by the Bureau of Insurance: April 1990

- * These values are based on the November 1, 1988 rates approved by the Commission. It is the responsibility of the insurer to use the most current values when filing for a deviation.

**Workers' Compensation
Deviation Documentation**

Name of Insurer: _____

NAIC Code Number: _____

Due Date of This Report: April 1, 199__*

Valuation Date for Lines
(1) through (3), below, is: December 31, 199__*

(show all dollars in thousands)

Experience for Policies Becoming Effective Between January 1 and December 31 of Year Listed Below	Standard Earned Prem.:		Net	No. of Policies(d)
	At DSR(a)	Actual(b)	Earned Premium Actual(c)	
1. Policy Year Ending Dec. 31 Immediately Prior to Due Date of this Report	_____	_____	_____	_____
2. Policy Year Ending 12 Mos. Prior to Line (1), above	_____	_____	_____	_____
3. Policy Year Ending 12 Mos. Prior to Line (2), above	_____	_____	_____	_____

Notes:* Due date to be completed by insurer in accordance with instructions. Valuation date is December 31 of year immediately preceding due date, applicable to all three policy years.

- (a) DSR = Designated Statistical Reporting Level. This premium is based upon NCCI rates (direct basis, prior to reinsurance ceded or assumed).
- (b) Premium at approved rates including any applicable deviation (direct basis, prior to reinsurance ceded or assumed).
- (c) Standard premium in column (b) adjusted to reflect premium discounts and/or retrospective rating adjustments (direct basis, prior to reinsurance ceded or assumed).
- (d) Number of policies with effective dates in policy year.