

COMMONWEALTH OF VIRGINIA

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December 3, 2001

Administrative Letter 2001 – 12

TO: All Property & Casualty Insurers Licensed in Virginia

**RE: Schedule Rating Plans/Individual Risk Premium Modification Plans
Documentation for the Application of Debits and Credits**

The purpose of this administrative letter is to inform insurers that all premium debits and credits which are applied pursuant to any schedule rating plan/individual risk premium modification plan (SRP/IRPM) must be supported by evidence documented in the underwriting file of every new business and renewal policy. The Bureau of Insurance (Bureau) will enforce this position when conducting market conduct examinations and through other enforcement actions.

Section 38.2-1904 C of the Code of Virginia states:

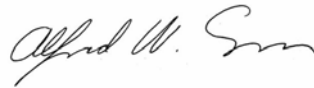
Classification rates may be modified to produce rates for individual risks in accordance with rating plans that establish standards for measuring variations in hazards, expense provisions or both. The standards may measure any difference between risks that can be demonstrated to have a probable effect upon losses or expenses.

Instructions for filing SRP/IRPMs incorporating such standards were provided to insurers by the Bureau in Administrative Letter 1983-9 dated November 4, 1983. Among other things, the Bureau advised insurers that "all risk characteristics (including expense modification) must be justifiable, and that records of derivation must be maintained on an individual risk basis."

It has come to the attention of the Bureau that insurers are not documenting in their underwriting files the individual risk characteristics that justify the debits and credits that are being applied. In many cases, credits or debits are applied to new business policies when issued, and no further documentation is obtained when policies are renewed, even when modifications are changed at renewal. Characteristics of individual risks can and will change with the passage of time. For example, an insurer applying a credit for a new roof could not justify the continuation of such a credit when the roof becomes old and worn.

Although the Bureau will no longer require insurers to file manual rules that state that underwriting files must document the justification for credits and debits applied under an SRP/IRPM at each renewal of the policy, it remains the position of the Bureau that such documentation must be performed. Otherwise, the insurer will be deemed to be issuing policies that are not rated in accordance with the rating plan filed with the Bureau. Therefore, the Bureau will cite any failure to document the justification for schedule rating debits and credits as a violation of § 38.2-1906 D of the Code of Virginia.

Sincerely,

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

Alfred W. Gross
Commissioner of Insurance