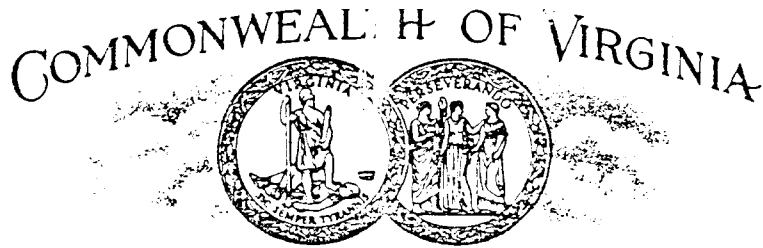


JAMES M. THOMSON
COMMISSIONER OF INSURANCE

THOMAS S. NARDO
FIRST DEPUTY COMMISSIONER



BOX 1157
RICHMOND, VA. 23209
TELEPHONE (804) 786-3741

STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

November 4, 1983

ADMINISTRATIVE
LETTER 1983-9

TO: ALL COMPANIES AND RATE SERVICE ORGANIZATIONS LICENSED
FOR PROPERTY AND CASUALTY INSURANCE IN THE COMMONWEALTH
OF VIRGINIA

RE: EXPERIENCE/SCHEDULE RATING PLANS - APPLICATION OF
CREDITS AND DEBITS

SCHEDULE RATING PLANS - EXPENSE MODIFICATION APPLICATION

Market Conduct examinations conducted by the Bureau of Insurance have revealed two areas in the rating plans filed by or on behalf of companies which are currently subject to interpretation and are not being applied uniformly within individual companies.

As respects experience rating plans and schedule rating plans, the programs currently on file do not indicate whether the credits or debits developed under both plans are additive or multiplicative. Each program should indicate whether the company is adding the two credits (or debits) and using the reciprocal of the sum as the modifier or whether the company is multiplying the reciprocals of the credits (or debits) and using the product as the modifier. An amended manual page(s) must be submitted for each rating plan currently on file outlining how the credits are to be combined.

In addition, the schedule rating plans currently on file contain a provision for expense credits or debits based on expenses which are not reflected in the standard allowance provided in the plan. However, the currently filed schedule rating plans are not specific as respects the maximum credit or debit for expenses, nor do these plans clarify whether the maximum total credit or debit percentage for the schedule rating plan includes or excludes these additional expense considerations. For example, the following wording has been taken from a currently approved rating plan:

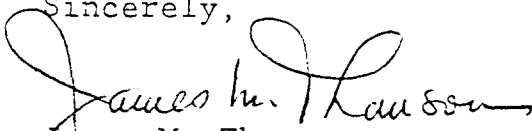
The following modifications may be applied to recognize such special characteristics of the risk as are not fully reflected in the basic premium or rates. These modifications contemplate the standard allowance for expenses. If the expenses are less than standard, such modification, if a credit, shall be increased, or if a debit, shall be decreased, by the amount of reduction in expenses. The total credits or debits under the following table may not exceed 25%.

This illustrative rating plan goes on to cite six risk characteristics and the range of credits or debits. The risk characteristic of expense reduction with its maximum credit or debit is not contained in this rating plan. In addition, the rating procedure language as respects the maximum total credits or debits under the table does not make it clear whether the 25% maximum is inclusive or exclusive of any additional expense reduction.

Therefore, amended manual page(s) must be submitted for each rating plan currently on file outlining the additional risk characteristic of expense modification with a maximum credit and debit. In addition, the amended page(s) must outline whether the total credit or debit percentage includes or excludes the risk characteristic of expense modification.

Please note that all risk characteristics (including expense modification) must be justifiable, and that records of derivation must be maintained on an individual risk basis.

Sincerely,


James M. Thomson
Commissioner of Insurance
JMT/mle

Exception:

Private passenger and commercial automobiles owned by employees of one employer may be subject rating on a combined risk basis with automobiles of the employer in accordance with the following conditions:

1. There are three or more private passenger or commercial automobiles owned by either employer or employee.
2. The usual duties of the employees to be rated involve the use of motor vehicles in the business of the employer and such individuals are employees who receive an operating allowance or reimbursement for expenses incurred in the operation of the vehicle (rate per mile, gas, oil, tire, upkeep allowances) from the employer, or where the terms of employment contemplate the use of a motor vehicle.
3. The automobiles of all eligible employees subject to the limitation of one automobile per employee shall be included in the rating and private passenger automobiles shall be written at business use class rates. Coverage shall be afforded in accordance with the provisions of the Business Automobile Policy form.
4. The employer maintains requirements regarding the use and maintenance of automobiles owned by eligible employees and the automobiles of eligible employees are used and maintained in accordance with such requirements.
5. The employer is responsible for payment of the premium.
6. Private passenger automobiles owned by eligible employees shall not be subject to the provisions of any applicable Safe Driver Insurance Plan Rule.
7. The policy schedule shall list the employees by name and include a description of the automobiles owned by them.

If there is no owned or hired automobile exposure or if the owned and hired automobile exposure is not sufficient to qualify for the application of this Plan, and risk which develops an annual manual premium of \$300 or more for bodily injury and property damage employers non-ownership liability exposures shall be eligible for the application of the experience and schedule rating provisions of this Plan. The headquarters location of the risk shall govern the application of this Plan for all employers non-ownership liability exposures regardless of location.

Rule II. Rating Procedure is deleted and replaced by the following:

II. Rating Procedure

The experience modification for the risk shall be determined in accordance with the experience rating procedure described herein.

In addition to any experience modification, a rate modification reflecting specified characteristics of the risk may be applied to the manual rates in accordance with the schedule rating table which is a part of this plan to the extent that such characteristics are not reflected in the experience of the risk.

The rate modification contemplates the standard allowance for expenses. If the expenses are less than standard, such modification if a credit shall be increased, or if a debit shall be decreased, by the amount of reduction in expenses. This reduction is determined by a decrease in commission, as decided by the agent, subject to a maximum of 17.5%. The expense reduction is separate from the maximum modification allowed under the Schedule Rating Table.

If the owned and hired automobiles of a risk are subject to a modification developed in accordance with this Plan, such modification may also be applied to the employers non-ownership liability exposures provided the premiums and losses for such exposures are included in the development of the modification.

IOWA NATIONAL MUTUAL INSURANCE COMPANY

Exception Page 2

Effective March 1, 1984

To compute a composite factor, use the following procedure:

	CREDIT		DEBIT	
	Percentage	Complement (100% - Pct.) 100%	Percentage	Complement (100% + Pct.) 100%
1. Experience Modification	_____ %	XXX	_____ %	XXX
2. Schedule Rating Modification	_____ %	XXX	_____ %	XXX
3. Combined Modification (Line 1 + Line 2)	_____ %	0. _____	_____ %	1. _____
4. Expense Reduction	_____ %	0. _____	(-) _____ %	0. _____
5. Net Modification Factor (Line 3 × Line 4)	XXX	0. _____	XXX	1. _____

The Schedule Rating Table in Rule V. is replaced by the following:

V. Schedule Rating Table

The manual rates for the risk may also be modified in accordance with the following schedule rating table to reflect such characteristics of the risk as are not reflected in the experience:

	Range of Modifications
	Credit Debit
A. Management Cooperation with insurance company, revision of schedules, routes and practices to conform with insurer recommendations	10% to 10%
B. Employees Selection, training, supervision, age, basis of remuneration	10% to 10%
C. Equipment Type, condition, servicing, risk's own repair facilities, safety equip- ment, driver's report on condition	10% to 15%
D. Safety Organization Periodic meetings, distribution of safety literature, award and penalty system, review of accidents with drivers, safety director, accident reports and records	15% to 10%

THE MAXIMUM CREDIT OR DEBIT APPLICABLE UNDER THIS SCHEDULE RATING TABLE SHALL NOT EXCEED 40%.

IOWA NATIONAL MUTUAL INSURANCE COMPANY

Exception Page 3

Effective March 1, 1984

GENERAL LIABILITY SCHEDULE RATING PLAN
VIRGINIA

I. Applicability

This plan applies to General Liability and Medical Payments coverages, subject to the following Exception:

Exception: This plan does not apply to Hospital Professional Liability and Incidental Liability Insurance

II. Eligibility

The term "risk" as used in this Plan means the exposures of any one insured which are to be rated. Allied or subsidiary interests shall not be included unless the insured holds a majority financial interest therein.

This Plan shall apply to any risk that develops an annual basic limits manual premium of \$500 or more for the bodily injury and property damage liability exposures to be rated.

III. Rating Procedure

In addition to any experience modification resulting from the application of the applicable experience rating plan, a rate modification reflecting specified characteristics of the risk may be applied to the manual rates in accordance with the Schedule Rating Table which is a part of this plan to the extent that such characteristics are not reflected in the experience of the risk. These modifications shall be applied by multiplying the reciprocals of the credits (or debits) and using the product as the modifier.

The rate modification contemplates the standard allowance for expense. If the expenses are less than standard, such modification if a credit shall be increased, or if a debit shall be decreased, by the amount of reduction in expenses.

IV. Schedule Rating Table

The manual rates for the risk may be modified in accordance with the following schedule rating table to reflect such characteristics of the risk as are not reflected in the experience:

	Range of Modifications	
	Credit	Debit
A. Location:		
i. Exposure inside premises	5%	5%
ii. Exposure outside premises	5%	5%
B. Premises - condition, care, loss control programs	10%	10%
C. Equipment -- type, condition, care	10%	10%
D. Classification peculiarities	10%	10%
E. Employees - selection, training, supervision, experience	10%	10%
F. Expenses - lessor or greater than normal for risk class	10%	10%

The maximum credit or debit applicable under this schedule rating table shall not exceed 45%.

December 1, 1983

FEDERATED MUTUAL INSURANCE COMPANY