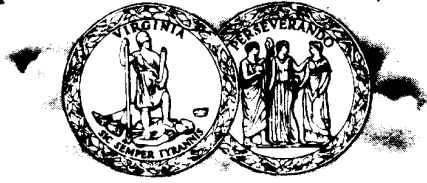


# COMMONWEALTH OF VIRGINIA



STEVEN T. FOSTER  
COMMISSIONER OF INSURANCE

Box 1157  
RICHMOND, VA 23209  
TELEPHONE: (804) 786-3741  
TDD/VOICE: (804) 225-3806

## 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 FOR ALL INSURERS  
PRIOR TO ADJUSTMENT FOR PART I-B**

(Note: Servicing Carriers must also complete Part I-B.)

(1)	(2)	(3)	(4)
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>
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
Total/Wgt.Avg.	_____	_____	_____

**Notes:**

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.

Name of Insurance Company: \_\_\_\_\_  
 Proposed Effective Date of Deviation: \_\_\_\_\_

**PART I-B**  
**Page 1**

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

**EARNED PREMIUM ONLY**

(1)	(2)	(3)	(4)
	Experience Ceded by Company to the NWCRP: (omit 000's)		
Calendar Year	Virginia Net Earned Premium	Premium Discount Factor	Virginia Standard Earned Premium
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
Total/Avg.	_____	_____	_____

**Notes:**

Col.(2) - The Virginia Net Earned Premium should be the net earned premium that was reported by the Company to the National Workers Compensation Reinsurance Pool for the twelve months ending December 31 of each year.

Col.(3) - The premium discount factor should be the premium discount underlying the net earned premium in Column (2). Companies may use the premium discount factors provided in Part VI, or their own if supporting data is submitted.

Col.(4) - This is the net earned premium ceded to the pool adjusted to a standard premium level. It is calculated as Column (2)/(1.0-Column (3)).

Name of Insurance Company: \_\_\_\_\_  
 Proposed Effective Date of Deviation: \_\_\_\_\_

**PART I-B**  
**Page 2**

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

**INCURRED LOSSES ONLY**

(1) Calendar Year	(2) Virginia Actual Incurred Losses	(3) Company IBNR	(4) Virginia Adjusted Incurred Losses
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
19__	_____	_____	_____
Total/Avg.	_____	_____	_____

**Notes:**

Col.(2) - The Virginia Actual Incurred Losses should be those losses reported by the Company to the National Workers Compensation Reinsurance Pool for the twelve months ending December 31 of each year.

Col.(3) - The Company IBNR should be the direct IBNR losses included in your Company's financial records for Virginia workers compensation assigned risks written by your Company.

Col.(4) - This is the total incurred losses, including IBNR, for Virginia workers compensation assigned risk business written by your company. It is calculated as Column (2) + Column (3).

Name of Insurance Company: \_\_\_\_\_  
 Proposed Effective Date of Deviation: \_\_\_\_\_

**PART I-C, Page 1**

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

(1)	(2)	(3)	(4)	(5)
	Experience of Company:			
	<u>(omit 000's)</u>			
<u>Calendar Year</u>	<u>Modified Virginia Standard Earned Premium</u>	<u>Modified Virginia Actual Incurred Losses</u>	<u>Modified Loss Ratio (3)/(2)</u>	<u>NCCI Voluntary Virginia Loss Ratio</u>
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-C - See Part I-C, Page 2**

**PART I-C, Page 2**

**Notes for PART I-C**

**Col.(2)** - Premium in column (2) should be the data reported on PART I-A, column (2) minus the data reported on PART I-B, page 1, column (4) for the Twelve Months Ending December 31 of each year.

**Col.(3)** - Losses in column (3) should be the data reported on PART I-A, column (3) minus the data reported on PART IB, page 2, column (4).

**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)	(2)	(3)	(4)
	Experience of Company:		
		(omit 000's)	
<u>Calendar Year</u>	<u>Incurred Losses</u>	<u>Incurred Loss Adjustment Expense</u>	<u>Ratio (3)/(2)</u>
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:  $\{[\text{Expense constant} \times \# \text{ of Virginia policies}] \times [100\% - (1) - (5) - (6)]\} / \text{Standard Earned Premium}$ .

**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-C, lines (c) and (d)] Proposed \_\_\_\_\_ Indicated \_\_\_\_\_
2. Deviation based upon provision for loss adjustment expense [PART II, lines (c) and (d)] Proposed \_\_\_\_\_ Indicated \_\_\_\_\_
3. Deviation based upon provision for overhead expense (including provision for underwriting profit and contingency) [PART IV, lines (10) and (11)] Proposed \_\_\_\_\_ Indicated \_\_\_\_\_
4. Deviation proposed/indicated (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-C, Col. (5)	NCCI Voluntary Virginia Loss Ratios: 1985 0.698 1986 0.726 1987 0.675 1988 0.703 1989 0.734
Part I-B - Page 1, Col. (3)	Premium Discount Factors 1985 0.030 1986 0.040 1987 0.047 1988 0.054 1989 0.057
Part II, line (b)	Allowance for loss adjustment expense underlying current rates as a ratio to expected losses effective 11/1/90 is <u>.104</u>
Part III, line (a)	Allowance for profit and contingency (as a percent of earned premium) underlying Virginia rates effective 11/1/90 is <u>-10.619%</u>
Part IV - Page 1, line (9)	Effective 11/1/90: "x" = 86.717% "y" = -10.619%

Issued by the Bureau of Insurance: January 1991

\* These values are based on the November 1, 1990 rates approved by the Commission. It is the responsibility of the insurer to use the most current values when filing for a deviation.