

# MISSISSIPPI

## Department of Insurance



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DATE: October 19, 1990

All Licensed Property & Casualty Insurance Companies

FROM: George Dale, Commissioner of Insurance

Loss Cost Filing Procedures

Effective January 1, 1991

Attached is a bulletin outlining the procedures to be used when making filings to be effective January 1, 1991 and thereafter under the loss cost system. Please follow all directions and use the form provided so that we may begin this new system in an orderly manner. Please remember that this procedure is to be effective at such time as the advisory/rating organization begins publishing loss costs for the individual lines of insurance. Contact needs to be made with the individual advisory/rating organization as to the date they will make the conversion to the new system.

Acknowledgement of this bulletin is requested by individual company

## LOSS COST BULLETIN

DATE: October 19, 1990

All Licensed Property-Casualty Insurance Companies

FROM: Mississippi Insurance Department

Prospective Loss Costs Filing Procedures

### Prospective Loss Costs Filing Procedures

This bulletin specifies the framework under which advisory/rating organizations and participating insurers in advisory/rating organizations will operate in a loss cost system. Under this system, advisory/rating organizations will no longer develop or file advisory final rates but instead will develop and file, for approval, advisory prospective loss costs and supporting actuarial and statistical data. Each insurer must individually determine and file the rates it will use as a result of its own independent company decision-making process. Advisory/rating organizations will continue to develop and file rules, relativities and supplementary rating information on behalf of their participating insurers.

Nothing in these procedures shall be construed to require advisory/rating organizations or their participating insurers to immediately refile rates previously implemented. Any participating insurer of an advisory/rating organization is authorized to continue to use all rates and rating factors filed and approved for its use until disapproved, or the insurer makes its own filing to change its rates, either by making an independent filing or by filing a Reference Filing Adoption Form adopting the advisory/rating organization's prospective loss costs, or modification thereof.

### Definitions

- 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 a multiplier 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 expenses) 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, classification, rating schedule, policy fee, rating rule, rate-related underwriting rule, experience rating plan, statistical plan and any other similar information needed to determine the applicable rate in effect or to be in effect.

## Section I: Rates/Loss Costs

### A Advisory/Rating Organization Action

Advisory/rating organizations will no longer develop or file advisory final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, advisory/rating organizations will develop and file for approval with the Insurance Department in accordance with relevant Mississippi Statute, a Reference Filing containing advisory prospective loss costs and supporting actuarial and statistical data.

Reference Filings will contain the advisory prospective loss costs and the underlying loss data and other supporting actuarial information for any calculations or assumptions underlying those loss costs.

After a Reference Filing has been filed with the Insurance Department and approved, the advisory/rating organization will provide its participating insurers with a copy of the approved Reference Filing.

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

With the initial prospective loss costs Reference Filing, advisory/rating organizations will no longer

develop or file any minimum premiums.

B) Insurer Action

Each insurer must individually determine the final rates it will file for approval 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 advisory/rating organization decides to use the prospective loss costs in the approved Reference Filing in support of its own filing, the insurer should make a filing for approval using the Reference Filing Adoption Form. The insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Reference Filing Adoption Form.

Insurers may file modifications of the prospective loss costs in the approved Reference Filing based on their own anticipated experience. Supporting documentation will be required for any modifications (upward or downward) of the prospective loss costs in the approved Reference Filing.

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, it must file, for approval, the minimum premiums it proposes to use.

The insurer may choose to file loss cost multipliers, with appropriate manual rule, in lieu of final rates. This will remain in effect until withdrawn or the insurer files and receives approval of a revised Filing Adoption Form.

The insurer may request to have its loss costs multiplier remain on file and reference all subsequent prospective loss costs Reference Filings. Upon receipt of subsequent approved advisory/rating organization's Reference Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost multiplier contained in the Reference Filing Adoption Form on file with the Insurance Department, and will be effective on or after the effective date of the prospective loss costs. The insurer need not file anything further with the Insurance Department.

If an insurer that has filed to have its loss cost

multiplier remain on file with the Insurance Department intends to delay, modify, or not adopt a particular advisory/rating organization's Reference Filing, the insurer must make an appropriate filing with the Insurance Department.

Insurers may file such other information which the company deems relevant and shall provide such other information as may be requested by the Insurance Department.

To the extent that an insurer's final rates are determined solely by applying its loss cost multiplier, as presented in the Reference Filing Adoption Form, to the prospective loss costs contained in an advisory/rating organization's Reference Filing and printed in the advisory/rating organization's rating manual, the insurer need not develop or file its final rate pages with the Insurance Department. However, the company must file a manual rule showing the loss cost multiplier to be used.

For future Reference Filings filed by the advisory/rating organization:

If the insurer HAS filed to have its loss cost multiplier remain on file, applicable to subsequent Reference Filings, and a new Reference Filing is filed and approved 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 Insurance Department. Rates are the combination of the prospective loss costs and the on-file loss cost multiplier 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 different effective date... | 2. the insurer must notify the Insurance Department of its effective date 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  | 3. the insurer must file for approval a revised Reference Filing Adoption Form before the   |

- |  |  |
|--|--|
| cost multiplier...   | effective date of the Reference Filing.  |
| 4. the insurer decides NOT to revise its rates using the prospective loss costs... | 4. the insurer must notify the Insurance Department before the effective date of the loss costs. |

If an insurer has NOT elected to have its loss cost multiplier remain on file, applicable to future prospective loss costs reference filings, and a new Reference Filing is filed and approved, and

- |   |  |
|---|--|
| If...   | Then   |
| 1. the insurer decides to use the prospective loss costs to revise its rates... | 1. the insurer must file a Reference Filing Adoption Form for approval including its effective date. |
| 2. the insurer decides NOT to use the revisions...                              | 2. the insurer does not file anything with the Insurance Department.                                 |

Section II: Supplementary Rating Information

A) Advisory/Rating Organization Action

The advisory/rating organization files with the Insurance Department, for approval, filings containing a revision of rules and supplementary rating information. This includes policy-writing rules, rating plans, classification codes and descriptions, territory codes and descriptions and rules which include factors or relativities such as increased limits factors, classification relativities or similar factors but excludes minimum premiums.

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

Advisory/rating organizations may print and distribute manuals of rules and supplementary rating information excluding minimum premiums.

B) Insurer Action

If an insurer has authorized an advisory/rating organization to file on its behalf, and a new filing of

rules, relativities and supplementary rating information is filed and approved 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 Insurance Department.   |
| 2. the insurer decides to use the revisions as filed BUT with a different effective date... | 2. the insurer must notify the Insurance Department of its effective date before the approved advisory/rating organization's effective date.   |
| 3. the insurer decides not to use the revision...   | 3. the insurer must notify the Insurance Department before the advisory/rating organization's effective date.  |
| 4. the insurer decides to use the revision with modifications...                            | 4. the insurer must file the modification with the Insurance Department, for approval, specifying the basis for the modification and the insurer's proposed effective date if different than the effective date filed by the advisory/rating organization. |

All inquiries concerning this Directive should be addressed to

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Nellie Mitchell  
Director, Rating Division  
Mississippi Insurance Department