INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE

Rate Filing Requirements: Voluntary Market Private Passenger Automobile Insurance

Proposed Amendments: N.J.A.C. 11:3-16.2, 16.3, 16.8, 16.9, 16.10 and 11:3-16 Appendix Exhibits A and H

Authorized By: Holly C. Bakke, Commissioner, Department of Banking and Insurance

Authority: N.J.S.A. 17:1-8.1 and 17:29A-1 et seq.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2003-291

Submit comments by September 19, 2003 to:

Douglas A. Wheeler, Assistant Commissioner
Legislative and Regulatory Affairs
Department of Banking and Insurance
20 West State Street
P.O. Box 325
Trenton, NJ 08625-0325
Fax: (609) 292-0896
E-mail: legsregs@dobi.state.nj.us

The agency proposal follows:

Summary

The Department of Banking and Insurance (Department) is amending its Rate Filing Requirements for Voluntary Market Private Passenger Automobile Insurance found in N.J.A.C. 11:3-16. Specifically, the Department is amending N.J.A.C. 11:3-16.10(a)1 to revise the calculation formula which will be considered standard ratemaking methodology as referenced in that rule. The Department's amendments

modernize the allowable calculation. The current standard utilizes the "Clifford Formula," which has not been modified since it was originally utilized in 1972.

The Department is amending the definition of "Expenses" found in N.J.AC. 11:3-16.2, by deleting the reference to the Unsatisfied Claim and Judgement Fund (UCJF). The Department is also deleting the definition of Unsatisfied Claim and Judgement Fund (since P.L. 2003, c. 89 (the Act) transfers and consolidates the UCJF to the New Jersey Property-Liability Guaranty Association (PLIGA).

The Department is amending N.J.A.C. 11:3-16.3(i) to delete the reference to how transactions with the UCJF shall be reported.

The Department is amending N.J.A.C. 11:3-16.8(e)2 to delete the limit of $75,000 for PIP coverage. The Department is also deleting the requirement found in N.J.A.C. 11:3-16.8(f)1 that basic PIP data shall be given at a per person limit retained by the insurer.

The Department is amending N.J.A.C. 11:3-16.9(a)3 to delete the part of this provision that requires the expense flattening calculation to exclude the UCJF assessment for the excess medical benefits reimbursed to insurers by that fund.

N.J.S.A. 17:29A-36.2 requires the Department to promulgate regulations providing a standard ratemaking methodology, standards of efficiency etc. N.J.S.A. 17:29A-36.3 permits the Commissioner to promulgate rules and regulations, which he/she deems necessary to effectuate the provisions of that Act. The Department is amending N.J.A.C.11:3-16.10 by replacing the Clifford Formula with a Return on Equity (ROE) calculation. Such a formula or calculation is essential in the ratemaking methodology process in order to calculate appropriate rates and also to determine whether an insurer has excess profits. See N.J.S.A. 17:29A-5.6 et seq. This calculation is also necessary with respect to N.J.S.A. 17:29A-14, which requires that rate changes be neither excessive, inadequate nor unfairly discriminatory.

The ROE is a more widely accepted method utilized by most other states in determining what is an insurer's allowable profit generated by rates that are not excessive or inadequate. The proposed amendment limits the ROE to a maximum of 12 percent, which the Department has concluded is a proper maximum allowable profit at this time. The Department recognizes the need for permitting an appropriate level of insurer profit, after giving due credit for investment income earned on policyholder-supplied funds, in order to determine adequate, but not excessive personal automobile insurance rates. The Department recognizes that interest rate levels, nationwide insurer return on equity levels, the level of competition in the auto insurance marketplace in New Jersey, return on equity levels in other industries, and other factors may impact what would constitute an adequate ROE.

The Department also notes that P.L. 1997, c.151, N.J.S.A. 17:29A-46.1 et seq., was amended by Section 4 of P.L. 2003, c. 89. The amended law permits an insurer to file a proposed alteration to its rating system pursuant to the limited rate filing process provided for in P.L. 1997, c 151, so long as the increase sought is no more than seven percent. The recent amendments to P.L. 2003, c. 89 were intended to make limited rate changes a quicker process while continuing to include basic ratemaking calculations, of which ROE is part. In order for the Department to ensure that the limited ratemaking process adequately reflects current market conditions, the proposed amendments require the Commissioner to review the ROE at least biennially, and to adjust the maximum allowable return on equity based on an evaluation of the factors mentioned above, as reflected in A.M Best Reports, the NAIC profitability reports, return on surplus and the Federal Prime Interest Rate. Proposed amendments to N.J.A.C. 11:3-16B (published elsewhere in this issue of the New Jersey Register) also refer to the change to the ROE, and contain the calculations used to establish the need for any limited rate change.

P.L. 1997, c. 151, § 18 (N.J.S.A. 17:29A-46.5) refers to the establishment by the Commissioner of “rules and regulations and administrative processes that are reasonable, necessary, appropriate and consistent with the provisions of section 14 through 17 of this amendatory and supplementary act.” P.L. 1997, c.151, § 37 provides that the Commissioner “may promulgate regulations and other administrative processes necessary to effectuate the purposes of this amendatory and supplementary act including, but not limited to, procedures governing rate system filings to implement this amendatory and supplementary Act.”

Because private passenger automobile insurance rating systems, including those filed pursuant to the limited rate change process prescribed in P.L. 1997, c.151 as amended by P.L. 2003, c. 89, may not result in rates that are excessive or inadequate, a ROE calculation is a necessary component of the Department’s standard ratemaking methodology. Therefore, pursuant to the Commissioner’s general authority to promulgate rules and regulations in accordance with N.J.S.A. 17:1-8.1 and 17:29A-36.3 and the explicit authorization to “promulgate…administrative processes necessary to effectuate…procedures governing rating system filings” conferred by P.L. 1997, c. 151, § 37, the amendments to N.J.A.C. 11:3-16.10(a) would establish a process through which the maximum allowable ROE specified in that rule can be adjusted. New paragraph 10 of that subsection provides that the Commissioner may issue an Order, no less frequently than once every two years, to adjust the maximum allowable ROE. This amendment establishes a notice and comment procedure, and specifies that any Order issued upon the conclusion of that process shall set forth the basis of the Commissioner's determination. The new paragraph further requires the Commissioner to, upon issuance of the order, file with the Office of Administrative Law a notice of Administrative change.

The Department is also amending N.J.A.C. 11:3-16.10(a) to limit the premium-to-surplus ratio used for this calculation to a minimum of 2/1 or the company's actual premium-to-surplus ratio. The amendment also provides that the ROE calculations reflect investment income earned on surplus. Additionally, the Department's proposal requires the allowance for profit and contingencies used in deriving the expected loss and loss adjustment expense ratio to be a net of all investment income in policyholder funds and surplus. The Department is amending N.J.A.C. 11:3-16.10(a)5i to delete the part of this provision that excludes reserves for the excess medical benefit claims over $75,000. The Act raises that amount to $250,000. The Department is also proposing to amend N.J.A.C. 11:3-16.10(a)7 and Exhibit A by deleting the references therein to the Clifford Formula and replacing them with references to the Return on Equity methodology. Exhibit A is also being amended to delete the references to PIP and the UCJF. The Department is amending Exhibit H by adding language that excludes the results of insurance carriers with membership requirements, and changes from June 30 to May 31 the date the Department will compile its annual list of the 20 largest private passenger automobile companies or groups.

The Department is deleting N.J.A.C. 11:3-16.10(b) that references the UCJF assessment and recodifies paragraphs (b)9 and 10 as 8 and 9. N.J.A.C. 11:3-16.10(c)3, which also addresses PIP and the UCJF, is also being deleted.

A 60-day comment period is provided for this notice of proposal and, therefore, pursuant to N.J.A.C. 1:30-3.3(a)5, the proposal is not subject to the provisions of N.J.A.C. 1:30-3.1 and 3.2 governing rulemaking calendars.

Social Impact

The proposed amendments will better ensure the continued financial solvency of automobile insurers authorized to do business in New Jersey. In recent years, several insurers have withdrawn from the New Jersey automobile insurance market, and it is possible that other insurers may file withdrawal applications in the near future. The resulting decrease in competition among the remaining insurers has impeded regulatory efforts to put downward pressure on automobile insurance rates. Amending these rules to utilize the Return on Equity calculation to determine what constitutes an allowable profit should help stabilize the market in two ways: current automobile insurers should be more inclined to remain in the New Jersey market, and other insurers may be attracted to enter the New Jersey market. The ensuing increase in competition will benefit New Jersey drivers.

In addition, the amendments to N.J.A.C. 11:3-16.10(a) will enhance the level of fairness and predictability in the auto insurance regulatory scheme, thereby enabling insurers to make better informed and more reliable business decisions.

Economic Impact

By replacing the “Clifford Formula” with the Return on Equity calculation, the proposed amendments will have a positive impact on insurers by permitting them to earn a more competitive rate of return, while not significantly increasing the maximum profit allowable to auto insurers. As a result of the Department’s proposed amendment, an insurer’s profit will vary depending on the risk(s) of the operation and its type of business, that is, whether it is a mutual, stock or reciprocal company. New Jersey insureds will also benefit, as the increased competition discussed in the Social Impact statement above should result in downward pressure on rates for coverage.

Federal Standards Statement

A Federal standards analysis is not required because the proposed amendments are not subject to any Federal requirements or standards.

Jobs Impact

Although the Department does not anticipate that the amendments alone will result in the generation or loss of jobs, it believes that the package of statutory and regulatory amendments of which it is a part, taken as a whole, will contribute to the attractiveness and competitiveness of the New Jersey automobile insurance market and help preserve and expand employment in the automobile insurance industry and in insurance agencies and brokerage firms. The Department invites interested persons to submit any data or studies about the jobs impact of these proposed rules with their written comments.

Agriculture Industry Impact

The proposed amendments will have no agriculture industry impact.

Regulatory Flexibility Statement

Pursuant to the New Jersey Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., a “small business” means any business resident in this State that employs fewer than 100 full-time employees and is not dominant in its field. Some insurers affected by these amendments meet this definition. The Department observes that the proposed amendments do not impose any new recordkeeping, reporting, or compliance obligations. Additionally, the Department does not believe that these amendments will impose any undue burden on small businesses. In order to provide for uniform and consistent applicability of these rules in the automobile insurance market, no differential treatment is accorded small businesses. These amendments will not require small businesses to use any professional services beyond those they currently utilize (primarily actuarial) to comply.

Smart Growth Impact

The proposed amendments will not have an impact on the achievement of smart growth or the implementation of the State Development and Redevelopment Plan.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets **[**thus**]**):

11:3-16.2 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

. . .

"Expenses" means that portion of a rate that is attributable to commissions and brokerage, other acquisition expenses, general expenses, **and** taxes, licenses and fees **[**and Unsatisfied Claim and Judgement Fund ("UCJF")**]**. Expenses do not include Automobile Insurance Risk Exchange ("AIRE").

. . .

["UCJF" means the Unsatisfied Claim and Judgment Fund, established pursuant to N.J.S.A. 39:6-61 et seq.**]**

11:3-16.3 General requirements and filing format

(a)-(h) (No change.)

(i) All data shall be reported on a direct basis exclusive of business ceded to reinsurers or reinsurance assumed from other companies. **[**Notwithstanding this provision, transactions with the UCJF shall be reported as set forth in N.J.A.C. 11:3-16.8(d)1, 11:3-16.9(a)3 and 11:3-16.10(c)3.**]**

(j)-(l) (No change.)

11:3-16.8 Premiums, loss costs, loss and loss adjustment expense data (a)-(d) (No change.)

(e) Each filer, except small filers, shall provide the data in (e)1 through 7 below. Small filers shall provide the data in (e)3 and 4 below:

1. (No change.)

2. For each coverage, complete paid loss development triangles for the 10 latest available accident years at each and every annual evaluation date from 15 months to 123 months for Personal Injury Protection ("PIP") **[**up to $75,000**]**, either basic or total Bodily Injury Protection ("BI") and Uninsured/Underinsured Motorists ("UM/UIM"), 15 to 75 months for Property Damage Liability ("PD"), and 15 to 51 months for collision and comprehensive if accident year data is used by the filer to develop its rate or loss cost level indications for collision and comprehensive coverages. Provide the corresponding nine-year, five-year and three-year average loss development factors derivable from these triangles. (These are minimum requirements. The filer may present additional accident years, further evaluation and other averages of factors);

3.-7. (No change.)

(f) Each filer, except small filers, shall provide the following data regarding trend factors and their application. Small filers shall provide the data required by (f)2, 4 and 5.

1. All internal loss trend data on a paid and, at the filer's option, incurred basis shown separately for frequency and severity for the latest available five rolling years on a quarterly year ending basis for all coverages for New Jersey. Bodily injury liability and property damage liability trend data shall be given at the same limits as used for (a) above. **[**Basic personal injury protection ("PIP") data shall be given at a

per person limit retained by the insurer according to N.J.S.A. 39:6-73.1 ($75,000 of insurer payments).**]** Physical damage coverages shall be shown on the basis of the $500.00 deductible or all deductibles combined adjusted to the $500.00 deductible basis. In the latter case, the filer shall provide an explanation of the methodology for adjusting other than $500.00 deductible data to the $500.00 deductible level.

2.-5. (No change.)

(g)-(j) (No change.)

11:3-16.9 Data requirements for expense and profit provisions

(a) Filers, not including rating organizations, shall provide the data in (a)1 through 4 below regarding expenses for the latest three calendar years:

1.-2. (No change.)

3. The derivation of the expense flattening, the calculation of indicated fixed expense fees on a per exposure basis, as required by N.J.S.A. 17:29A- 37. **[**The expense flattening calculation shall exclude the UCJF assessment for the excess medical benefits reimbursed to insurers by that fund.**]** The expense shall be applied by coverage; and 4. All data shall be on a direct basis excluding LAD fees and AIRE assessments, AIRE allocation and AIRE investment income.

4. (No change.)

(b)-(f) (No change.)

11:3-16.10 Rate calculation using standard ratemaking methodology

(a) Investment income shall be treated by group of coverages as follows:

1. The calculation of the underwriting profit and contingency **provision,** taking into account investment income on loss **reserves,** loss adjustment expense **reserves, [**and**]** unearned premium reserves **and policyholder surplus** shall be calculated in accordance with the **[**Clifford Formula**]** **Return-On-Equity (ROE)** methodology, wherein **until revised pursuant to the procedure set forth in (a)10 below,** the **[**combined**]**, **target** after-tax **[**profit from underwriting and**]** **ROE shall be limited to a maximum of 12.0 percent as a ratio to surplus or the company's target ROE, whichever is lower, inclusive of projected** investment income on loss **reserves,** loss adjustment expense **reserves, [**and**]** unearned premium reserves **[**is 3.5 percent of premium**]** **and policyholder surplus. [**The profit and contingency provision may**]** **the premium-to-surplus ratio (P/S) used for this calculation shall be limited to a minimum of 2/1, or the company's actual P/S as of the end of the latest calendar year, whichever is greater. The ROE calculation shall reflect investment income earned on surplus, based on past rates of return calculated in (a)8 below, to derive a net return on policyholder funds. The target return on policyholder funds shall be converted to a percentage of earned premium. Investment income earned on policyholder funds shall** be calculated using a discounted cash-flow method with the cash-flow patterns provided in N.J.A.C. 11:3-16.9(c); otherwise the company shall provide the information contained in (a)2 through 6 below. **The allowance for profit and contingencies used in deriving the expected loss and loss adjustment expense ratio shall be net of all investment income in policyholder funds and surplus, stated as a percent of earned premium and converted to a pre-tax basis.**

<u>i. Factors the Department will consider in determining future adjustments to the maximum ROE permitted shall include interest rate levels, nationwide insurer return on equity levels, the level of competition in the New Jersey auto insurance market, ROE levels in other industries, and such other occurrences or conditions that may impact upon the adequacy of the ROE, as reflected in AM Best Reports, NAIC profitability reports, return on surplus, the Federal prime interest rate, and other indicies of similar reliability.</u>

2.-4. (No change.)

5. The ratio of loss reserves to incurred losses shall be on a direct business basis derived from the appropriate line of business from New Jersey Page 14 of the Statutory Annual Statement. The calculations shall be as follows:

i. The average of the loss reserve **[**(excluding the reserves for excess medical benefits claims over $75,000)**]** at the beginning of the year and at the end of the year divided by the corresponding incurred losses during the year;

ii.-iii. (No change.)

6. (No change.)

7. The expected loss and loss adjustment expense ratio shall be one minus the underwriting expense ratio, minus the underwriting profit and contingency ratio derived from the **[**Clifford Formula**]** **<u>Return on Equity Calculation</u>**.

8. (No change.)

(b) Underwriting expense provisions shall be determined as follows:

1.-6. (No change.)

[7. The percentage loading for the UCJF assessment shall be the most recent value established by the Commissioner.**]**

[8.] **7.** (No change in text.)

[9.**]8.** The filing shall include for each of the categories in (b)**[**8**]7** above the dollars of expense that were excluded from the rate base, separately for each year of historic information and separately for each of the above seven categories. If the filer submits a ratemaking methodology that includes these expenses pursuant to (f) below, specific justification for including these expenses shall be included.

[10.**]9.** (No change in text.)

10. In accordance with (a) 1 above, the Commissioner may issue an Order, no less frequently than once every two years, to adjust the maximum allowable ROE. Before issuing such an Order, the Commissioner shall publish a notice in the New Jersey Register, and provide secondary notice in the manner prescribed in N.J.S.A. 52:14B-4(e) regarding notices of intent with respect to a proposed rulemaking proceeding. The notice shall indicate that the Commissioner has determined that a reevaluation of the current maximum ROE specified in this rule is necessary. The notice shall identify those factors, as set forth in (a) above, which the Commissioner intends to consider when conducting his analysis. The notice shall further indicate that interested parties may submit comments upon the notice, including comments upon other factors which might be considered in addition to those mentioned in the notice. The comment period provided by the notice shall be not less than 30 days.

<u>i. Any order issued by the Commissioner subsequent to this notice and comment procedure shall set forth the basis for the Commissioner's determination on the maximum allowable ROE. Any such Order shall be a final agency decision subject to review by the Appellate Division of Superior Court in accordance with N.J.S.A. 52:14B-1 et seq.</u>

<u>ii. Upon the issuance of an Order pursuant to this rule, the Commissioner shall file with the Office of Administrative Law a notice of administrative change for publication in the New Jersey Register, which notice shall announce the revised maximum ROE specified in the Order.</u>

(c) The data base to be used shall be as follows:

1.-2. (No change.)

[3. Personal injury protection experience shall be limited to the direct "before reinsurance" exposure retained by the insurance company according to N.J.S.A. 39:6-73.1. Any losses reimbursed or subject to reimbursement to the insurer by the UCJF for excess medical benefits shall not be included with the experience contained in the filing.**]**

(d)–(i) (No change.)

APPENDIX

Exhibit A

PRIOR APPROVAL FILINGS

Company/Group: ______________________

Company File No. ______________________

Section	Item	Page Number
1) – 4)	(No change)	

5) Loss Development Triangles - All data must be at total limits and/or basic limits, and must be consistent throughout the filing.

Section	Item	Page Number
16.8(e)2	(Required only if at least 0.5 percent of NJ market) Paid Loss Development Triangles for the last 10 accident years for annual evaluation dates from 15 months to … • BI: 123 months • PD: 75 months • UM/UIM: 123 months • PIP: 123 months • **[**PIP losses capped at $75,000**]** • Collision: 51 months • Comprehensive: 51 months • 3/5/9 year average age-to-age and age-to-ultimate factors for above	**[**Yes / No**]**
16.8(e)3	Information in e(2) above for incurred losses	
16.8(e)4	Information in e(2) above for either paid or incurred defense and cost containment expense (ALAE)	
16.8(e)5	(Required only if at least 0.5 percent of NJ market) Information in e(2) above for paid claim counts	
16.8(e)6	(Required only if at least 0.5 percent of NJ market) Information in e(2) above for incurred claim counts	
16.8(e)7	(Required only if at least 0.5 percent of NJ market) A statement regarding any changes in the filer's case loss reserving practices in the last five years.	

6) Loss Trend

Section	Item	Page Number
16.8(f)1	(Required only if at least 0.5 percent of NJ market) • Internal loss trend data on a paid basis (incurred basis optional), separately for frequency and severity for latest available five rolling years on a quarterly year ending basis, for all coverages • **[**PIP losses limited to $75,000**]** • Comp./Coll. shown at or adjusted to (with explanation) $500.00 deductible • Explanation for above if "Explain" chosen	**[**Yes / No**]** Yes / Explain

16.8(f)2	External industry fast track data on a paid basis, shown separately for frequency and severity for latest available five years on a rolling quarterly year ending basis, for all coverages
16.8(f)3	(Required only if at least 0.5 percent of NJ market) • For all trend data described above, annual T statistics and coefficient of correlation, using least-squares regression with time as the independent variable • Trend calculations for at least two of the following point periods: 6, 9, 12, 16, 20 • Side-by-side comparison of actual and fitted data • Calculations on both an exponential and straight line basis
16.8(f)4i	Derivation of Trend Factors – All data and worksheets used and judgements made
16.8(f)4ii	Derivation of Trend Factors – Description of derivation methodology
16.8(f)4iii	Derivation of Trend Factors – Description of application of the methodology to this filing
16.8(f)5	Information (including studies, analyses, and fact sheets) of effects of the following: • Changes in seatbelt use • Use of passive restraint systems (for example, air bags) and safety and anti-theft devices such as anti-lock brakes and traction control • Changes in the drinking age • Changes in price/amount of fuel purchased • Changes in average distance driven • AICRA of 1999 • Primary Seat Belt Law of 2000 • Graduated Licensing Law of 2001 • Other changes

7) – 10) (No change.)

11) Investment Income and Profit and Contingency Provision

16.9(c)1	Amount of investment income earned on loss, LAE, and unearned premium reserves in relation to earned premium for private passenger automobile insurance in NJ calculated for each of the last two years and estimated for current year, calculated in detail including the amount of composite reserves of each type at the beginning and end of each year.
16.9(c)2	Cash flow pattern from policy inception date until receipt of premium, showing both premium and installment premium, by coverage.

16.9(c)3	Cash flow pattern from policy inception date for • Commission and brokerage • Other acquisition expenses • General expenses • Assessments • Premium taxes, licenses, and fees • Any other expense payments
16.9(c)4	Cash flow pattern from policy inception date for • Loss • ALAE • ULAE
16.9(d)1	Identification of all statistical plans used or consulted
16.9(d)2	Certification that data correctly collected
16.9(e)	Rate of return on equity capital and on total assets given the selected underwriting profit and contingency provision calculated in 16.10(a)1, showing the derivation of all factors used to produce the calculation.
16.9(f)1	Amount of finance and other miscellaneous charges collected in NJ.
16.9(f)2	Description of all products and services supplied or received in transactions between the filer and a parent company, a wholly owned subsidiary, or an affiliated company (state if none)
16.10(a)1	Calculation of profit and contingency provision using the **[**Clifford Formula**] ROE formula**, based on the cash flow method or another method provided
16.10(a)2	(Required only if alternative to cash flow method used) Deductions made for prepaid expenses with documentation (state if none)
16.10(a)3	(Required only if alternative to cash flow method used) Deductions made for delayed remission of premiums with documentation (state if none)
16.10(a)4	(Required only if alternative to cash flow method used) Ratio of unearned premium reserves to premium obtained from NJ Page 14 and calculated as described
16.10(a)5	(Required only if alternative to cash flow method used) Ratio of loss reserves to incurred losses derived from NJ Page 14 and calculated as described
16.10(a)6	(Required only if alternative to cash flow method used) Ratio of LAE reserves to loss reserves derived from Part 3A of the Statutory Annual Statement and calculated as described
16.10(a)7	Expected L+LAE Ratio = 1 - Underwriting Expense Ratio - Underwriting Profit & Contingency Provision
16.10(a)8	Interest Rate used is larger of average of last two years' investment income yield or estimated yield for current year, calculated in 16.9(c)1

12) Expenses and Other Information

16.10(b)1	Commission & Brokerage expense provision derived from NJ Page 14	
16.10(b)2	Premium Tax expense provision derived from NJ Page 14	
16.10(b)3	NJ Specific Data used for Assessments	
16.10(b)4	General and Other Acquisition Expenses derived from Part 3 of IEE	
16.10(b)5	Trend of General and Other Acquisition expense using All Items CPI and monthly average weekly wages for fire and casualty insurance employees (50/50 weighting)	
16.10(b)6	Expenses Capped by Appendix Exhibit H Calculation (available on DOBI web site)	
[16.10(b)7**]**	**[**Load for UCJF is most recent value established by Commissioner**]**	
16.10(b)**[**8**]**<u>**7**</u>	Excluded Expenses (state if none)	
16.10(b)**[**9**]**<u>**8**</u>	Expense dollars excluded in accordance with (b)**[**8**]1** or justification provided for use	
16.10(b)**[**10**]** <u>**9**</u>	Bodily Injury Liability Zero/Verbal Threshold Commissions equalized using Appendix Exhibit C	
16.10(c)1	Accident Year data used for liability coverages	Yes / No
16.10(c)2	Most recent Accident Year data ends no more than 15 months before submission date of filing (Accident Year need not end on December 31).	Yes / No
[16.10(c)3**]**	**[**PIP experience capped at $75,000**]**	**[**Yes / No**]**
16.10(d)1	Frequency & Severity calculated separately in loss trends	Yes / No
16.10(d)2	Adjustment for Symbol Drift and Model Year Rating	Yes / No
16.10(e)	Filer demonstrates that a reasonable rate of return on its capital investment will result from proposed rates	
16.10(f)	(Optional) Alternate rate making procedure	
16.10(g)1	Appendix Exhibit J, Rate Pursuit Questionnaire	
16.10(g)2	Sample New and Renewal Insurance Applications	

13) (No change.)

EXHIBIT H

Calculation of Maximum on Combined Commission and Brokerage, other

Acquisition Expense and General Expenses

The maximum expense shall be calculated as a weighted average of those companies in the 20 largest private passenger automobile companies or groups in this State that use the same marketing method as the filer**, excluding the results of insurance carriers with membership requirements**.

The Department will compile the list of the 20 largest private passenger automobile companies or groups on **[**June 30**]** **May 31** of each year based on the most recent annual premium volume.

The companies and groups on the list shall be divided into one of the three marketing methods: (1) Independent Agents; (2) Captive Agents; or (3) Direct Writers. The designation of marketing method shall be based on the primary designation for the company or group in the A.M. Best Report (Property/Casualty). The list shall be posted on the Department's web site and made available to filers on request.

The provision for commission and brokerage expense shall be calculated as a percentage of New Jersey written premium, as stated on New Jersey Page 14 of the Statutory Annual Statement for each company or group used in the calculation. The provision for general and other acquisition expense shall be calculated as a percentage of countrywide earned premium, as stated on Part 3 of the Insurance Expense Exhibit for each company or group used in the calculation.