

INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
PROPERTY AND CASUALTY DIVISION

Rate Process for Limited Rate Changes: Calculations for Private Passenger Automobile Insurance Rate Changes.

Proposed Amendments: N.J.A.C. 11:3-16B

Authorized By: Steven M. Goldman, Commissioner, Department of Banking and Insurance

Authority: N.J.S.A. 17:1-8.1, 17:1-15e, 17:29A-46.6 and 17:29A-46.7

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

Proposal Number: PRN 2006-325

Submit comments by December 1, 2006 to:

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The agency proposal follows:

Summary

The Department of Banking and Insurance (Department) is amending N.J.A.C. 11:3-16B, its rules governing Rate Process for Limited Rate Changes: Calculations for Private Passenger Automobile Insurance Rate Changes. These amendments continue the Department's recent efforts to reform the private passenger automobile insurance market by fostering competition and providing consumers with more choices. Additionally, these amendments are necessary in order to make these rules consistent with recently adopted amendments made to N.J.A.C. 11:3-16,

Rate Filing Requirements: Voluntary Market Private Passenger Automobile Insurance. See 37 N.J.R. 2026(a).

The Department is amending the purpose and scope of the subchapter as set forth in N.J.A.C. 11:3-16B.1, to clarify that these rules apply to base rate changes by coverage and territory, expense fees, and to increased limit and deductible relativity factor changes. This language clarifies the Department's intent that shorter timeframes are only warranted for less complicated filings adhering to standard methodology. Filings encompassing more detailed changes to class and other relativity factors should be made under N.J.A.C. 11:3-16.

The Department is amending N.J.A.C. 11:3-16B.2, Definitions, by including definitions found in N.J.A.C. 11:3-16. Definitions are being added for the following terms: "accident year," "affiliate," "AIRE," "base rate," "claim," "Department," "expenses," "exposure," "filer," "group of coverages," "informational filing," "loss cost multiplier," "prior approval filing," "prospective loss cost," "rate," "rating organization," "rating system," "reasonable rate of return," "small filer," "tier and tier rating system," and "total rate of return." Additionally, the Department is amending the term "coverage" to track the definition set forth in N.J.A.C. 11:3-16, by adding "BI and PD" (bodily injury and property damage). The Department is also deleting the term "combined" from paragraph 6 in the definition, because the term, as is clarified in the amendment to subparagraph 6i, UM data may be combined with the liability data in paragraph 2, as well as paragraphs 1, 3 or 5. The Department is also amending subparagraph 6i by replacing the term "shall" with "may" in order to allow companies that have more UM data to reflect their indications separately. The definition for "earned premium" is being deleted to be consistent with N.J.A.C. 11:3-16. This is a common industry term and no special usage is employed in Subchapter 16B. The Department is also amending the definition for the term "Personal

Automobile Insurance Plan” or “PAIP,” to reflect the statutory reference of N.J.S.A. 17:29D-1 et seq., rather than the cross reference to N.J.A.C. 11:3-2, which is deleted. The Department is also deleting the definition of “rate change” because it is more specifically addressed in N.J.A.C. 11:3-16B.5(c) and (d).

The Department is deleting language contained in N.J.A.C. 11:3-16B.3(a)1, which addresses the information contained in the cover letter that includes the company’s file number, a statement of the percentage, etc., because this information is included in Appendix Exhibit B of N.J.A.C. 11:3-16, which is being incorporated into the rule by reference at new paragraph (a)2. The Department is proposing to delete the “actuarial certification” requirement found in N.J.A.C. 11:3-16B.3(a)3, in order to be consistent with N.J.A.C. 11:3-16. Since the Department requires an “officer” certification, see N.J.A.C. 11:3-16B.3(e), an actuarial certification would be redundant. Additionally, the Department is adding a requirement to N.J.A.C. 11:3-16B.3(a)4 that the exhibits which illustrate the proposed new rates also include Statewide average rates, rating factors and any underlying premium and exposure distribution necessary to the calculations. The Department is amending N.J.A.C. 11:3-16B.3(a)6 in order to update the cross-reference to N.J.A.C. 11:3-45.3, rather than to N.J.A.C. 11:3-19A.3. The Department is adding a new provision as N.J.A.C. 11:3-16B.3(a)7, that requires the distribution of exposure-level rate impact by five percent intervals. The Department is also adding N.J.A.C. 11:3-16B.3(a)8 to require the data described in N.J.A.C. 11:3-16B.4 to be submitted on a CD-rom or MS-DOS formatted 1.44MB disk. Subsection (c) is being added to N.J.A.C. 11:3-16B.3, in order to make it consistent with the requirements of the prior approval filing (N.J.A.C. 11:3-16.3(b)) that address separate insurance companies that are affiliated by a parent-subsidiary or any group relationship and that choose to submit a single filing for a group. N.J.A.C. 11:3-16B.3(d) is

being to added to list the address for the submission of filings. The Department is adding N.J.A.C. 11:3-16B.3(e) to provide the certification that shall accompany the filing. N.J.A.C. 11:3-16B.3(f) is being added to provide that all data shall be reported on a direct basis exclusive of business ceded to reinsurers or business assumed from other companies, consistent with N.J.A.C. 11:3-16.3(f).

N.J.A.C. 11:3-16B.4(a)4 is being added to require that all supporting exhibits include documentation of formulas and data sources. The Department is amending N.J.A.C. 11:3-16B.4(b)3 by deleting references to “COMP” and “COLL” coverages, in order to clarify that this section applies to all applicable coverages, including liability coverages. N.J.A.C. 11:3-16B.4(b)3i is being amended to use the phrase “methods used” instead of “methodology.” In N.J.A.C. 11:3-16B.4(c)1 and 2, the references to “ALAE” (allocated loss adjustment expense) are being changed to “DCC” (defense and cost containment). At N.J.A.C. 11:3-16B.4(c)3i, the Department is deleting the phrase “developed by the company,” because Fast Track trend factors are not developed by the company, but are ordered by companies from industry sources. N.J.A.C. 11:3-16B.4(c)4 is being amended to change references from “ALAE” to “DCC” and “ULAE” (unallocated loss adjustment expense) to “AO” (all other). N.J.A.C. 11:3-16B.4(c)5 is being deleted and replaced with language used in N.J.A.C. 11:3-16.8(g) regarding changes to legislative/regulatory factors and delete the reference to the Automobile Insurance Cost Reduction Act (AICRA). The reference to AICRA is being deleted because the effects of AICRA are now part of the data history and there is no need to specifically require it. Additionally, the amendments to this provision require filers to account for impacts of significant change (i.e, legislative, regulatory, social, economic or operational factors) that have an impact on loss frequency or loss adjustable expenses. This provision also now includes language which

provides that the timeframes for the Department's review of certain filings will be those set forth in N.J.A.C. 11:3-16B.4(k)

N.J.A.C. 11:3-16B.4(d)3 is being amended to insert correct citations to the prior approval filing (N.J.A.C. 11:3-16). N.J.A.C. 11:3-16B.4(d)5 is being amended to delete the reference to "Return on Equity Formula" because that phrase is no longer applicable. Additionally, the Department's amendment provides that if the filer is proposing a revision to the profit and contingency provision, the filer shall provide all information related to the derivation of the profit and contingency loading contained in the filing by group of coverages. Filers are also required to specifically include all data used and judgments made, as well as a description of the method used to arrive at the selected loading. Further, filers are required to demonstrate that the profit and contingency loading does not result in rates that are excessive, inadequate, or unfairly discriminatory. Finally, the amendment provides that the Department's review of, and decision on any filing that includes a change to the profit and contingency provision is not governed by the time frames in N.J.A.C. 11:3-16B.6(d), but instead will be subject to the time frames set forth in N.J.A.C. 11:3-16B.4(k). In N.J.A.C. 11:3-16B.4(d)6 and (e), the Department is deleting the term "capped" from total expenses because N.J.A.C. 11:3-16B.4(d)3 already caps individual expense components, so no further capping is necessary when calculating the total. Additionally, N.J.A.C. 11:3-16B.4(d)6 is being amended to update the cross references to paragraphs (d)1, 2, 4 and 5 rather than to paragraphs (d)3 through 5. N.J.A.C. 11:3-16B.4(f) is being amended by replacing the term "methodology" with the phrase "method used."

N.J.A.C. 11:3-16B.4(g) is being amended to revise the trending period for complement of credibility to prevent unreasonably long trend periods for filers that have not recently filed a rate revision. The Department is deleting the phrase "last effective date to the proposed effective

date” and is replacing it with the “average date of earning during the experience period to the average date of earning for the proposed effective period. N.J.A.C. 11:3-16B.4(i)1 is being amended to provide that territorial indications by coverage shall be based on “at least” three years of data. N.J.A.C. 11:3-16B.4(j) is being amended to reflect new language in N.J.A.C. 11:3-16B.1(c). The amendment deletes language that states that “for changes to deductible factor, classification factors, increased limit factors, points and credits, filer shall provide three years relative loss ratios to justify the proposed changes”. For changes to deductible factors and increased limit factors, the amended language requires filers to provide three-year relative loss ratios and the overall percentage impact resulting from the changes independent of any proposed rate based impacts. N.J.A.C. 11:3-16B.4(k) is being amended to provide options regarding the timeframes for filings that use alternate methods. These amendments permit a filer to submit a completely alternate method, provided it is clearly labeled as such and the identical alternate method has been submitted to the Department for review by the filer prior to its use pursuant to these rules. These amendments also address the Departments’ time-frames for review of an alternate method which are subject to N.J.A.C. 11:3-18.4. The Department is also adding N.J.A.C. 11:3-16B.4(l) to describe the format and how the data of N.J.A.C. 11:3-16B.4 should be submitted.

The proposed amendments to N.J.A.C. 11:3-16B.5(c) would allow insurers to utilize the limited rate change process on requests for up to a 15 percent change rather than 10 percent to individual territorial base rates, while restating and recodifying within subsection (c) the limitations of 10 percent by coverage and seven percent overall for all coverages combined prescribed by N.J.S.A. 17:29A-46.6. New N.J.A.C. 11:3-16B.5(d) is added, which would prohibit filings that, pursuant to these rules, result in individual rate impacts greater than 15

percent. The current provisions of N.J.A.C. 11:3-16B.5(d) and (e) are being recodified as subsections (e) and (f).

N.J.A.C. 11:3-16B.6(b)2 is being amended to delete the requirement for an actuarial certification and to add data submission requirements for new and small filers. N.J.A.C. 11:3-16B.6(d) is being amended to clarify the time frame for the Commissioner's rendering of a decision on a filing and to add exceptions to those time frames. Exhibit A is being amended to reflect the amendments to the rules as specified above.

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, this notice 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 establish uniform data specifications between the rate process for limited rate changes and ratemaking information submission requirements, which will aid the Department in its review of private passenger automobile insurance rate filings. These proposed amendments should make the rate process for limited rate changes more efficient for all insurers and continue to foster a more competitive marketplace in this State. The Department believes that by creating a more competitive private passenger automobile insurance market, consumers are provided more choices at potentially lower rates when selecting their private passenger automobile insurer. Enhancing the affordability of coverage should decrease the incidence of persons driving uninsured or underinsured, which will have a positive impact on all drivers.

Economic Impact

The Department believes that these proposed amendments should continue to promote a more competitive private passenger automobile insurance marketplace, thereby providing consumers with more choices and asserting downward pressure on rates. These amendments should also make the limited rate filing process less burdensome and less expensive for insurers. These amendments should also enhance the efficiency of the Department's review of the affected filings.

Federal Standards Statement

A Federal standards analysis is not required because the proposed amendments regulate the business of insurance and are not subject to any Federal requirements or standards.

Jobs Impact

Although the Department does not anticipate that the proposed amendments alone will result in the generation or loss of jobs, it believes that amendments should contribute to the continued attractiveness and competitiveness of the New Jersey automobile insurance market. The Department invites interested persons to submit any data or studies about the jobs impact of the amendments with their written comments.

Agriculture Industry Impact

Pursuant to N.J.S.A. 4:1C-1 et seq.; the Right to Farm Act, and N.J.S.A. 52:14B-4(a) of the Administrative Procedures Act, the Department does not expect any agriculture industry impact from the proposed amendments.

Regulatory Flexibility Analysis

The proposed amendments may apply to “small businesses” as that term is defined in the New Jersey Regulatory Flexibility Act N.J.S.A 52:14B-16 et seq. These “small businesses” are insurance companies authorized to write private passenger automobile insurance.

Most insurers that qualify as “small businesses” may use the services of a rating organization in connection with rate filings. Other insurers that are qualified members of rating organizations are required by statute to develop and file the expense and profit-and-contingency portion of the rate with their final rates. Since these rules describe data filing requirements in connection with automobile insurance rates, they do impose reporting, recordkeeping and other compliance requirements on those businesses. These data submission requirements are only necessary when an insurer chooses to seek a limited rate change pursuant to N.J.A.C. 11:3-16B, and any additional costs would be nominal. These requirements are imposed pursuant to the provisions of applicable statutes for all private passenger automobile insurers in the voluntary market. Proposed N.J.A.C. 11:3-16B.6(b)2 provides flexibility in certain situations where, due to an insurer’s size or lack of historical experience, carriers lack sufficient data to fulfill completely the data submission requirements imposed by the rules.

The rules do, however, establish different compliance and reporting timetables, to the extent they can be made consistent with the standardized ratemaking information requirements imposed by statute. Nevertheless, insurers should require no additional professional services in order to comply with the revised requirements. The Department believes that the amendments will be beneficial to all insurers regardless of size. Additionally, the Department believes that the amendments will clarify and ease the compliance burden imposed by the current rules on all insurers, including small businesses.

Smart Growth Impact

The proposed amendments have no impact on the achievement of smart growth and implementation of the State Development and Redevelopment Plan.

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

SUBCHAPTER 16B. RATE PROCESS FOR LIMITED RATE CHANGES; CALCULATIONS
FOR PRIVATE PASSENGER AUTOMOBILE INSURANCE RATE CHANGES

11:3-16B.1 Purpose and scope

(a) – (b) (No change.)

(c) These rules shall apply to base rate changes by coverage[, territorial base rate changes] **and territory, including** expense fees, [class factors, deductibles, increased limit factors and discounts and credits] **as well as to increased limit and deductible relativity factor changes.**

11:3-16B.2 Definitions

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

“Accident year” means the 12-month period covering the occurrences during that period.

“Affiliate” means an insurer that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the insurer making a filing.

“AIRE” means the Automobile Insurance Risk Exchange, established pursuant to N.J.S.A. 39:6A-21.

“Base rate” means the manual rate that results from all rating factors (limits, class, tiers, etc.) being at unity (1.000 factor).

“Claim” means a request for payment for a loss which comes under the terms of an insurance contract.

“Commissioner” means the Commissioner of the New Jersey Department of Banking and Insurance [in the State of New Jersey].

“Coverage” means:

1. – 2. (No change.)
3. Combined single limit **BI and PD** ("CSL");
4. – 5. (No change.);
6. Uninsured and underinsured motorists, bodily injury and property damage [combined] ("UM");
 - i. For developing the indications by coverage, UM data [shall] **may** be combined with liability data in 1, **2**, 3 or 5 above;
7. – 8. (No change.)

“Department” means the New Jersey Department of Banking and Insurance.

[“Earned premium” (“EP”) means direct, earned premium net of dividends paid or incurred.]

“Expenses” means that portion of a rate that is attributable to commissions and brokerage, other acquisition expenses, general expenses, and taxes, licenses and fees in addition to other miscellaneous expenses. Other miscellaneous expenses include the Automobile Insurance Risk Exchange (AIRE) assessments, AIRE allocations, AIRE investment income, Limited Assignment Distribution (LAD) carrier fees, if applicable, the expected gain (deficit) resulting from assigned risk business, and assessments for losses and costs relating to uninsured motorist coverage and pedestrian personal injury protection.

“Exposure” means one car insured for one year, or two cars insured for six months, each, etc.

“Filer” means any insurer or rating organization who makes an annual informational filing or rate filing requiring prior approval pursuant to these rules.

“Group of coverages” means liability coverages (to include bodily injury liability, property damage liability, personal injury protection and uninsured/underinsured motorists) and physical damage coverages (to include collision and comprehensive).

“Informational filing” means a filing made annually on July 1, in accordance with N.J.S.A. 17:29A-36.2b.

“Loss cost multiplier” means the adjustment reflecting expenses, profit and contingency loading and any modifications that the insurer used on the loss costs to produce final rates.

“Personal Automobile Insurance Plan” or “PAIP” means the New Jersey Personal Automobile Insurance Plan established by [N.J.A.C. 11:3-2] N.J.S.A. 17:29D-1 et seq.

“Prior approval filing” means a filing made pursuant to N.J.S.A. 17:29A-14 and N.J.A.C. 11:3-16.6 to alter, supplement or amend a rating system or any part thereof.

“Prospective loss cost” means that portion of a rate that does not include provisions for expenses (other than loss adjustment expenses) or profit, and is 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.

“Rate” means the unit charge by which the measure of exposure or the amount of insurance specified in a policy of insurance or covered thereunder is multiplied to determine the premium. The unit charge may be expressed as a single number or as a

prospective loss cost and an adjustment to account for the treatment of expenses, profit and variations in loss experience.

[“Rate change” means a rate increase of no more than seven percent overall or not more than 10 percent in any single coverage. Rate change also means any decrease in rates or a change in rates that is revenue neutral.]

“Rating organization” means every person or persons, corporation, partnership, company, society, or association engaged in the business of ratemaking for two or more insurers.

“Rating system” means every schedule, class, classification, rule, guide, standard, manual, table or rating plan by whatever name described containing the rates and rules used by any insurer in determining or ascertaining a rate.

“Reasonable total rate of return” means that rate of return appropriate for an enterprise given the risk involved.

“Small filer” means a filer with less than 0.5 percent of the total New Jersey written premiums in the voluntary market for private passenger automobile insurance for the most recently available prior calendar year.

“Tier” and “tier rating system” refer to one or more underwriting rules, filed and approved pursuant to N.J.S.A. 17:29A-46.1 et seq. and N.J.A.C. 11:3-19A, which defines and characterizes one or more mutually exclusive group of insureds.

“Total rate of return” means underwriting return and investment return on both reserves plus capital and surplus, related as a percentage to capital and surplus.

11:3-16B.3 Rate process for limited rate changes; insurers and rating organizations

(a) An insurer and/or rating organization, pursuant to N.J.S.A. 17:33B-31, may file for a rate change in accordance with this subchapter. The insurer shall provide the following information in support of its filing:

1. A cover letter notifying the Department of its intention to make a rate change according to the provisions of this subchapter; [the company's file number, a statement of the percentage and total dollar amount of the change in rates by coverage for each company included in the filing with subtotals by group of coverages (liability versus physical damage) and an overall total in the format of Appendix Exhibit E of N.J.A.C. 11:3-16 incorporated herein by reference;] a statement containing the effective date of the change for new and renewal policyholders; and the name, telephone number and mailing address of the company officer familiar with the filing to whom further inquiries regarding the filing may be directed;

2. The information in N.J.A.C. 11:3-16 Appendix Exhibit B incorporated herein by reference;

[2.] **3.** (No change in text.)

[3.] **4.** [An exhibit, supported by an actuarial certification,] **Exhibits** that illustrate[s] that the new rates are within the ranges permitted by N.J.S.A. 17:29A-36 and 29A-46.6(e). **The exhibits shall include Statewide average rates, rating factors, and any underlying premium and exposure distributions necessary to the calculations;**

[4.] **5.** The manual rating pages containing the territorial base rates by coverage to be implemented, accompanied by an explanatory memorandum showing the calculation of the new rates by coverage, using the existing rates by coverage as the starting point in the calculation; [and]

[5.] 6. Completed rating examples using the examples set forth in N.J.A.C. 11:3-[19A.3]45.3, which shows the proposed premium amounts[.];

7. The distribution of exposure – level rate impacts by five percent intervals, including descriptions of the characteristics of risks receiving the minimum and maximum impact; and

8. A CD-ROM or MS-DOS formatted 3.5 inch 1.44 MB disk as described in N.J.A.C. 11:3-16B.4

(b) (No change.)

(c) Separate insurance companies that are affiliated by a parent-subsidiary or any group relationship and that choose to submit a single filing for the group shall provide the data, either:

1. Separately for each company with a different rate level or different underwriting guidelines; or

2. Combined for those companies of the group which use a common rating system, including both base rates and underwriting guidelines, or when the difference is based only on expense differences.

(d) All filings shall be submitted to the Department at the following address:

New Jersey Department of Banking and Insurance
Office of Property and Casualty
P.O. Box 325
Trenton, NJ 08625-0325

(e) All filings shall be accompanied by the following certification signed by an officer of the filer: “I certify that the attached filing complies with all statutory and regulatory requirements and that all the information contained in it is true and accurate. I further certify that I am authorized to execute this certification on behalf of the filer.”

(f) All data shall be reported on a direct basis exclusive of business ceded to reinsurers or business assumed from other companies.

11:3-16B.4 Rate process for limited rate changes; calculation for private passenger automobile insurance

(a) General requirements for limited rate change filings are as follows:

1. - 2. (No change.)

3. Coverage indications shall be calculated as follows:

i. – iv. (No change.)

v. UM data shall be combined with liability data in (a)3i, ii, or iv

above. Filers do not have to calculate a separate indication for UM[.]; **and**

4. All supporting exhibits must include documentation of formulas and data sources.

(b) Filers shall provide the following information regarding projected earned premium:

1. - 2. (No change.)

3. The premium trend factors [for COMP and COLL coverages], based on either annual selections from the latest approved Insurance Services Office (ISO) filing in NJ, or internal company data.

i. If supplying premium trend factors developed from internal company data, the filer shall provide all data and [methodology] **methods used**.

(c) Ultimate loss and loss adjustment expense ("LAE") shall be determined by:

1. NJ incurred loss and defense/cost containment expense [("ALAE")] ("**DCC**"), by coverage, by accident year either combined (loss and [ALAE] **DCC**) or developed separately;

i. (No change.).

2. New Jersey loss development factors (LDFs) by coverage, either combined (loss and [ALAE] **DCC**) or separately;

i. – iii. (No change.)

iv. LDFs for COLL and COMP shall be consistent with the [methodology] **method** used in (c)1 above.

3. Loss trend factors shall be based on either annual selections from the latest approved ISO filing in NJ, or the latest available NJ Fast Track data, computed separately for severity and frequency by coverage (BI, PIP, PD, COMP, COLL). All data must be based on paid, not incurred/arising, claims.

i. If supplying Fast Track trend factors [developed by the company], the filer shall use the 12 quarter-rolling average and provide all data and calculations.

ii. (No change);

4. Adjusting and other claims related expenses (["ULAE"] "**AO**") shall be determined as a ratio of incurred ["ULAE"] **AO** to incurred loss plus incurred ["ALAE"] **DCC** from the latest three-year average of Countrywide Insurance Expense Exhibit (IEE) in the insurer's annual statement filed with the Department; [and]

5. [Effects of all applicable law changes shall be reflected, including but not limited to, the Automobile Insurance Cost Reduction Act (AICRA).] **Filers shall account for impacts of significant changes to legislative, regulatory, social, economic, or operational**

factors that have an impact on loss frequency or severity, or on loss adjustment expenses. These impacts shall be accounted for as supplemental to the standard data and procedures described elsewhere in this regulation, and must be justified. If the addition of such impacts results in an alternative method of calculating the indications, then the Department's review of and decision on the method will be governed by the time frames as set forth in N.J.A.C. 11:3-16B.4(k);and

6. (No change.)

(d) Expenses shall be determined by group of coverages (liability versus physical damage) from the total of:

1. - 2. (No change.)

3. The sum of (d)1 and 2 above are subject to the expense limitations found in N.J.A.C. 11:3-[16.10(b)6] **16.9(c)** and shall not include any of the expenses listed in N.J.A.C. 11:3-[16.10(b)8] **16.9(d)**. Current expense limitations by type of insurer will be posted annually on the Department's website www.njdoji.org, by group of coverages (liability versus physical damage).

4. (No change.)

5. [Profit] **The profit** and contingency [provisions reflecting investment income computed pursuant to the Return on Equity Formula in N.J.A.C. 11:3-16.10(a)] **provision shall be the last provision approved for the filer pursuant to either N.J.A.C. 11:3-16.10 or this subchapter. If the filer is proposing a revision to the profit and contingency provision, the filer shall provide all information related to the derivation of the profit and contingency loading contained in the filing by group of coverages. Filers shall specifically include all data used and judgments made, as well as a description of the method used to**

arrive at the selected loading. Filers shall demonstrate that the profit and contingency loading does not result in rates that are excessive, inadequate, or unfairly discriminatory. The Department's review of, and decision on any filing that includes a change to the profit and contingency provision is not governed by the time frames in N.J.A.C. 11:3-16B.6(d), but instead will be subject to the time frames set forth in (k) below.

6. Total [capped] expenses shall be determined from the sum of (d)[3 through 5] **1, 2, 4 and 5** above.

(e) Permissible loss and LAE ratios by group of coverages (liability versus physical damage) shall be determined by subtracting total [capped] expenses, determined in (d)[7]**6** above from 1.00.

(f) Credibility shall be determined by:

1. (No change.)

2. Alternatively, the filer may support different full credibility standards than those in (f)1 above by calculating the mean, variance and coefficient of variation from the company's internal size-of-loss distributions by coverage and then adjust the 1,082 claims frequency standard by the appropriate factors by coverage to reflect variation in severity. The severity adjustment shall be made and the filer shall provide all data together with [methodology]

the method used.

3. (No change.)

(g) The complement of credibility shall be assigned to the loss ratio trends by coverage, trended from the [last effective date to the proposed effective date] **average date of earning during the experience period to the average date of earning for the proposed**

effective period using premium and loss trends by coverage determined in (b)3 and (c)3 above, respectively; [and].

(h) (No change.)

(i) If only uniform Statewide base rate changes by coverage are proposed, the information in (a) through (h) above is sufficient. If proposed base rate changes vary by territory, the filer shall provide credibility-weighted territorial indications by coverage, in addition to (a) through (h) above.

1. Territorial indications by coverage shall be based on **at least** three years of data and shall be indexed to the indications by coverage, derived in (h)3 above.

2. (No change.)

(j) Filers that include changes to expense fees shall provide the standard, fixed expense fee calculation. For changes to deductible factors[, classification factors,] **and** increased limit factors, [discounts and credits,] filers shall provide three-year relative loss ratios to justify the proposed change[(s)]. **Filers shall also provide the overall percentage impact resulting from these changes independent of any proposed base rate impacts.**

(k) All filers shall use the Department's [methodology] **method** set forth in (a) through (j) above. The filer [can] **may** submit an alternate [methodology] **method** or use different data [to] **in** support **of specific elements of** its filing provided that it is clearly labeled as such and is submitted in addition to the [methodology] **method** in (a) through (j) above. **The filer may also submit a completely alternate method, not using the rules set forth in (a) through (j) above, provided it is clearly labeled as such and the identical alternate method has been submitted to the Department for review by the filer prior to its use in a filing under this subchapter.** The Department's review of, **and decision on,** any alternate

[methodology] **method** or data submission [is] **as referenced above are** not governed by the time frames in N.J.A.C. 11:3-16B.6(d), **but instead will be subject to the time frames set forth in N.J.A.C. 11:3-18.4.**

(l) Data described above in this section shall be submitted in written copy and, except for purely textual information, on an MS-DOS formatted 3.5 inch 1.44 MB disk or a CD-ROM. The information shall be provided in a Microsoft Excel or compatible worksheet. All calculated values shall be given as a formula in the spreadsheet.

11:3-16B.5 Limitation on filer's rate request

(a) - (b) (No change.)

(c) Filers shall be permitted to seek [single coverage] **base rate** increases of up to [10] **15** percent provided:

1. [the rate change is] **The increases are** indicated by **territory and coverage;** [and]

2. [the]**The** overall increase **for any single coverage** does not exceed [seven] **10** percent[.]; **and**

3. **The overall increase for all coverages for all policyholders combined does not exceed seven percent.**

(d) No individual policy shall experience a rate increase in excess of 15 percent within a 12-month period as a result of any filings made pursuant to this subchapter, inclusive of all filed changes to rates and rating factors.

Recodify existing (d) - (e) as **(e) - (f)** (No change in text.)

11:3-16B.6 Review; general principles; action

(a) (No change.)

(b) A filing will be deemed submitted when it is received by the Department's Property and Casualty Office and is accompanied by:

1. All the documents, exhibits and calculations required by this subchapter[; and] ;
2. [A certification of a qualified actuary, specifying that the filing is complete and complies with this subchapter.] **In those cases where, due to their small size and/or lack of historical experience, filers are unable to fulfill completely all of the data submission requirements set forth in this subchapter, such filers shall be required to submit as much required information as they are able to supply, and each filing shall be reviewed accordingly. The Department's review of, and decision, on any such filing are not governed by the time frames in (d) below, but instead will be subject to the time frames set forth in N.J.A.C. 11:3-18.4.**

(c) (No change.)

(d) [The] **Unless extended as provided in N.J.S.A. 17:29A-46.6d, the** Commissioner shall render a decision on a filing requesting an increase of up to three percent within 30 days after receipt of the filing[. A] **and shall render a** decision on a filing requesting an increase of more than three percent, but no more than seven percent **overall**, [shall be rendered] within 45 days after receipt of the filing. **These time frames are subject to the exceptions found in N.J.A.C. 11:3-16B.4(c)5, (d)5, (k) or (b)2 above.**

(e) – (i) (No change.)

APPENDIX
Exhibit A

<u>Section</u>	<u>Description</u>	<u>Page Number</u>
16B.3(a)1	<ul style="list-style-type: none"> • Cover letter [notifying DOBI of intention to modify rates • Statement of proposed changes (with \$ and %) by coverage • Exhibit E (% Change, \$ Effect, and Current/Proposed Expense Fee by coverage) (from N.J.A.C. 11:3-16) • Statement of Effective Date of Change • Name/Telephone/Address of Company Officer • Includes Company file number • Includes New/Renewal effective dates] <u>including proposed revision, effective date, and company contact information.</u> 	
<u>16B.3(a)2</u>	<u>N.J.A.C. 11:3-16 Appendix Exhibit B.</u>	
16B.3(a)[2]3	This checklist	
16B.3(a)[3]4	<ul style="list-style-type: none"> • Compliance with N.J.S.A. 17:29A-36 [• No class factor above 2.50 • No territory above 1.35 (incl. expense fees)] • No 65+ charged >1.25 x 65+average • Compliance with N.J.S.A. 17:29A-46.6(e) [• Actuarial Certification of above] 	
16B.3(a)[4]5	<ul style="list-style-type: none"> • Revised Manual Pages • Includes calculation of new rates 	
16B.3(a)[5]6	Rating Examples	
<u>16B.3(a)7</u>	<u>Rating Impacts</u>	
<u>16B.3(a)8</u>	<u>Data Disk</u>	
<u>16B.3(e)</u>	<u>Officer Certification</u>	
16B.4(a)1	Indications by coverage based on three years of data (or two years if fully credible with that data)	
16B.4(a)2	Liability data can be either at basic or total limits [Basic/Total]	
16B.4(b)3	[Comp & Coll] Premium Trend Factors from ISO or internal data (with data and [methodology] <u>methods</u> used for internal)	

- 16B.4(c)1 NJ incurred loss and incurred [ALAE] **DCC** (may be combined) by accident year by coverage (paid loss OK for COMP and COLL).
- 16B.4(c)4 [ULAE] **AO** Factor is ratio of incurred [ULAE] **AO** to incurred Loss + [ALAE] **DCC**, and comes from latest three available IEES.
- 16B.4(c)5 [Law changes] **Changes that impact frequency and/or severity** accounted for[:].
- AICRA (effective 3/21/99) (all coverages)
 - Primary Seatbelt (effective 5/1/00) (one percent BI and PIP)
 - Graduated Licensing (effective 1/1/01) (one percent BI, PD, PIP, COLL)]
- 16B.4(d)3 Expenses (1 and 2 above) capped by N.J.A.C. 11:3-16 Appendix [H] **E** Calculation (see www.nj.gov/dobi for current expense caps)
- 16B.4(d)4 Tax, License, and Fee Expense based on NJ WP from Page 14 (three-year average)
- 16B.4(d)5 Profit and [Contingencies] **Contingency** provision based on [Return on Equity Formula] **filer's latest approved filing under N.J.A.C. 11:3-16.10**
- 16B.4(g) Complement of credibility assigned to Loss Ratio Trend (Loss Trend divided by Premium Trend), trend period is [effective date of last filing to proposed effective date.] **average date of earning during experience period to average date of earning during proposed period.**
- 16B.4(k) Alternate [Methodology] **Method** permitted (optional, see regulation)
- 16B.5(a)-(b) Request overall limited to smaller of seven percent **increase** or indicated change
- 16B.5(c) Request by coverage limited to smaller of 10 percent or indicated change **by coverage, provided the overall increase does not exceed seven percent.**
- 16B.5(d) Individual policy impact limited to 15 percent.**
- 16B.5[(d)](e) Last limited rate change filing approved at least 12 months ago, **Yes/No**

Date

Steven M. Goldman
Commissioner