

INSURANCE

DEPARTMENT OF BANKING AND INSURANCE

OFFICE OF PROPERTY AND CASUALTY

Homeowners Insurance: Standard Hurricane Deductibles and Expedited Process for Homeowners Insurance Rate Changes

Proposed Repeals and New Rules: N.J.A.C. 11:2-42.4 and Appendix

Proposed Amendments: N.J.A.C. 11:2-42.1, 42.2, and 42.3

Authorized By: Richard J. Badolato, Commissioner, Department of Banking and Insurance.

Authority: N.J.S.A. 17:1-8.1, 17:1-15.e, and 17:36-5.35.

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

Proposal Number: PRN 2017-053.

Submit written comments by June 2, 2017, to:

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The agency proposal follows:

Summary

N.J.A.C. 11:2-42, originally adopted effective November 17, 2003, implements N.J.S.A. 17:36-5.33 et seq., by setting forth standard hurricane deductible language for homeowners insurance policies and establishing a process for expedited rate filings for homeowners insurance rate changes. After more than 10 years of experience with these rules with respect to the expedited rate change procedures, the Department of Banking and Insurance (Department) has determined to make changes to the rules to streamline the existing process for expedited rate changes for homeowners insurance, eliminate the filing of unnecessary information and to otherwise reflect current data and rating systems maintained by insurers. A summary of the proposed changes follows.

N.J.A.C. 11:2-42.1(c), which sets forth the scope of the rules, is proposed for amendment to delete the provision that the rules apply to base rate changes by form, territorial relativities, deductibles, protection/construction class factors, “coverage A” and “coverage C” amount of insurance factors, homeowners liability rates and associated liability increase limit factors, minimum premiums, and other factors and credits. The revised subsection provides that the subchapter shall apply only to base rate changes by form, territorial relativity factors, deductible relativity factors, protection/construction class relativity factors, amount of insurance relativity factors, liability rates and associated liability increase limit factors, and minimum premiums. The proposed change, thus, eliminates the provision for filing changes on an expedited basis to “other factors and credits.” References to coverage “A” and coverage “C” are revised to refer simply to amounts of insurance relativity factors. Rating systems have become more sophisticated and the number of other rating factors have increased significantly, which impacts

the ability of the Department to review changes within the required timeframes. Filers can make filings affecting other factors pursuant to N.J.S.A. 17:29A-1 et seq., and N.J.A.C. 11:1-2.1. This is consistent with the provision for review of limited rate filings for private passenger automobile insurance at N.J.A.C. 11:3-16B.1(c).

The definition of “earned premium” at N.J.A.C. 11:2-42.2 is proposed to be amended to eliminate the abbreviation of “EP” and to eliminate reference to dividends paid or incurred. The definition is also proposed to be amended to include all associated fee income collected under the insurer’s approved rating system. This proposed change eliminates consideration of dividends in earned premiums, and explicitly includes fee income associated with items, such as installment payments, late payments, reinstatements, and insufficient funds, which were not commonly part of rating systems at the time the subchapter was first adopted, but now is commonly included. The Department is proposing to delete dividends from consideration because dividends are reported separately from premiums on financial statements filed by insurers, and the Department is seeking to reconcile filing data to reported financial data. Filers may still treat dividends as a projected expense item in rate filings.

The definition of “form” at N.J.A.C. 11:2-42.2 is proposed to be amended to reference dwelling “fire” in paragraph 4; to reference “dwelling” extended coverage in paragraph 5 and to itemize “dwelling liability” as a separate form (new paragraph 6). These proposed amendments reflect all portions of a typical dwelling fire policy form.

The definitions for “ISO,” “qualified actuary” and “written premium” at N.J.A.C. 11:2-42.2 are proposed to be deleted as they are not referenced in the subchapter as proposed to be amended.

The definition of “rate change” at N.J.A.C. 11:2-42.2 is proposed to be amended to add the phrase “for any individual insurer” to clarify that the five percent limitation applies to each individual insurer if the filing is made by a group of insurers, and to add the term “overall” to clarify that a decrease includes any overall decrease in rate or a change in rates “for any individual insurer” that is revenue neutral.

N.J.A.C. 11:2-42.3(a) is proposed to be amended to delete the phrase that filings “shall meet the following requirements.” The Department believes that this is self-evident, and, thus, redundant. The existing rule provides that the Department will only accept filings through System for Electronic Rate and Form Filing (SERFF). The rule is proposed for amendment to provide that: all data fields in SERFF shall be completed per the applicable general instructions for New Jersey and that the SERFF filings’ General Information Filing Description Section shall be fully completed with a clear and precise description of the filing. All filing exhibits displaying calculations shall also be provided in Microsoft Excel compatible format, with all applicable formulas displayed in the file. This will aid in the Department’s expeditious review of these filings. The Department notes that many filers are currently submitting information in this format.

N.J.A.C. 11:2-42.3(a)1, which requires information on the top of each page in a rate filing, is proposed to be deleted as it is no longer necessary. This information was used to keep track of filings filed on paper. Filings are now made electronically through SERFF.

Existing N.J.A.C. 11:2-42.3(a)2, which provides that all data shall be reported on a direct basis exclusive of business ceded to reinsurers or reinsurance assumed from other companies, is proposed to be relocated to proposed new N.J.A.C. 11:2-42.4(b), as this relates to data requirements in an expedited rate filing.

N.J.A.C. 11:2-42.3(a)3, which relates to data submitted through assigned risk plans for homeowners insurance, is proposed to be deleted as no assigned risk mechanism for homeowners insurance currently exists. However, the data requirement is proposed to be included in proposed new N.J.A.C. 11:2-42.4(c)13 to require submission of residual data if applicable in the future.

N.J.A.C. 11:2-42.3(a)4, which provides that the most recent accident year data used in the filing shall end no more than 15 months prior to the date of submission of the filing, and that an accident year need not coincide with a calendar year, is proposed to be deleted. The Department believes that insurers' data processing systems enable them to produce data more quickly and almost all filings submitted by filers already meet the proposed requirement. If a filer cannot meet the requirement, the Department would have the flexibility to evaluate the specific circumstances to determine if older data would be appropriate for use in that circumstance.

N.J.A.C. 11:2-42.3(a)5, which requires that three copies of a rate filing be submitted, is proposed to be deleted. As noted above, filings are now submitted electronically in SERFF and this will be the only method of submission going forward.

N.J.A.C. 11:2-42.3(b)1 is proposed to be deleted as no longer necessary. This paragraph requires a cover letter from the insurer notifying the Department of its intention to make a rate change and other information if filers chose to file by hard copy rather than through SERFF. As all filings are required to be filed electronically through SERFF as noted above, this provision is not necessary.

Existing N.J.A.C. 11:2-42.3(b)3 is proposed to be deleted. This paragraph requires filers to provide an explanatory memorandum showing the calculation of new base rates. Rating

systems currently used by insurers are more sophisticated and have the potential to include hundreds of rates, making this memorandum inefficient for insurers to produce. In addition, effective dates are required to be provided as part of the SERFF filing and the Department does not need the insurer's file number for identification purposes.

Existing N.J.A.C. 11:2-42(b)4 is proposed to be deleted. This provision requires completed rating examples using the examples set forth in Exhibits A, B, and C and N.J.A.C. 11:4-29 Appendix, which shows the proposed premium amounts. This is no longer applicable as N.J.A.C. 11:4-29 was repealed.

New N.J.A.C. 11:2-42.3(b)2 is proposed, which will require the filing of manual rating pages containing all proposed changes in the rating system.

Existing N.J.A.C. 11:2-42.3(b)6, 7, 8, and 10 are proposed for deletion, as they are no longer necessary. These rules require the filing of, respectively:

(i) by form on a percentage basis, the maximum increase (or smallest decrease if no insured would receive an increase) and maximum decrease (or smallest increase if no insured would receive a decrease), along with a profile of the insured and the number of insureds that would receive each. The Department does not need this information by form as it receives a distribution of impacts pursuant to Exhibit B in the Appendix to the subchapter. In addition, insurers provide maximum/minimum information on the SERFF Rate/Rule Schedule;

(ii) a list of territorial definitions. Territory definitions are already on file with the Department;

(iii) a completed Justification for Minimum Premium, if a change is being proposed. While insurers should continue to provide a justification for any change in minimum premium,

the specific form is proposed to be deleted to permit insurers multiple ways to support the proposed change; and

(iv) a seven year history with effective dates by form because a rate history is already on file with the Department.

Proposed new N.J.A.C. 11:2-42.3(b)4 requires that a rate filing include a discussion of the characteristics of policies proposed to receive significant rate impacts and the proposed maximum and minimum rate impacts.

Proposed new N.J.A.C. 11:2-42.3(b)5 requires, as part of a filing, a completed Exhibit C in the Appendix. This incorporates the existing requirement in N.J.A.C. 11:2-42.3(b)1, which is proposed to be deleted.

Recodified N.J.A.C. 11:2-42.3(b)6 is proposed for amendment to change “effects” to read “effect” as a matter of form, and to delete the text that provides changes to current and proposed factors have to be provided “if revisions to those factors are being proposed” as the phrase to be deleted is self-evident and redundant.

Existing N.J.A.C. 11:2-42.4, which sets forth the rate process calculations for expedited rate filings for homeowners insurance, is proposed for repeal. The proposed repeal of the section will eliminate specific requirements including:

- Paragraph (a)1 – five years of data;
- Paragraph (a)2 – indications by form;
- Paragraph (c)3 – use of current amount factors for determination of premium trend;
- Subparagraph (d)2i – loss development factors based on average of latest five factors excluding high/low;
- Paragraph (d)3 – use of ISO methodology for current cost factors;

- Paragraph (d)4 – use of Fast Track or ISO loss trend data;
- Paragraph (d)6 – use of ISO wind/water factor;
- Paragraph (d)7 – use of 20 years of company catastrophe experience;
- Paragraph (d)8 – use of 20 years of company hurricane experience or ISO hurricane load, as well as prohibition on varying hurricane provisions by territory;
- Paragraph (d)9 – use of 20 years of company large loss experience;
- Paragraph (d)10 – maximum of 20 percent catastrophe/hurricane/large loss provision;
- Subsection (e) – prescribed accident year weights;
- Subsection (f) – use of three-year average for expense provisions;
- Subsection (h) – use of 240,000 exposure standard for credibility, and minimum credibility of 50 percent;
- Subsection (i) – use of selected loss ratio trend for complement of credibility; and
- Subsection (k) – use of five years of experience and 60,000 exposure credibility standard for territory indications.

Existing N.J.A.C. 11:2-42.4 is proposed to be replaced by proposed new N.J.A.C. 11:2-42.4. This proposed new rule requires that all forms comprising an insurer's homeowners program shall be included, either in the aggregate or separately, if sufficient credibility of data exists. Premium, loss, and expense data shall be reported on a direct basis exclusive of business ceded to reinsurers or assumed from other insurers. Data items shall include:

1. Earned premium at present rates using either the extension of exposures or on-level factor method. Provide the relevant rate level history;
2. Premium trend factors, including all data and judgments made, and a description of the method used to select the factors;

3. Earned exposures measured in house years;
4. Paid and/or incurred losses with applicable loss development factors and formulas used;
5. Paid and/or incurred defense and cost containment expense with applicable development factors and formulas used;
6. Paid and/or incurred adjusting and other expenses;
7. Ultimate developed losses and loss adjustment expenses, including a description of the method used to select the ultimate amounts;
8. Paid and/or incurred claim counts with applicable development factors and formulas used;
9. Ultimate developed claim counts, including a description of the method used to select the ultimate amounts;
10. Loss trend factors, including all data and judgments made, and a description of the method used to select the factors;
11. Underwriting expense provisions, including all data and judgments made, and a description of the method used to select the amounts. Filers shall also provide at least a three-year history of expenses as reported in applicable NAIC Annual Statement exhibits;
12. Reinsurance costs, if applicable, including all data and judgments made, and an explanation of how the costs were determined;
13. Residual market load, if applicable, including all data and judgments made, and an explanation of how the costs were determined; and
14. Profit and contingency provision, including all data and judgments made, and an explanation of how the provision was determined.

Proposed new N.J.A.C. 11:2-42.4(d) provides that filers shall adjust loss and loss adjustment expense data to exclude catastrophic events, including individual large losses. It further provides that losses may include provisions for expected catastrophic events and expected large losses based on long-term experience or model forecasts; however, if models are used, filers shall provide information regarding all assumptions incorporated into the projections, a sensitivity analysis based on varying the assumptions, and a discussion as to why the specific projections were selected as the best estimate of expected losses.

Proposed new N.J.A.C. 11:2-42.4(e) provides that if there is a proposed change to rating factors, filers shall provide all data used and judgments made and a description of the method used to derive the proposed factors.

Proposed new N.J.A.C. 11:2-42.4(f) provides that filers shall provide all data used and judgments made regarding any applicable credibility procedures and the methods used to select credibility weights and complements.

Proposed new N.J.A.C. 11:2-42.4(g) provides that filers shall account for impacts of significant changes to legislative, regulatory, social, economic, or operational factors that have an impact of loss frequency or severity or on expenses.

Proposed new N.J.A.C. 11:2-42.4(h) provides that filers shall provide a reconciliation of any significant changes to their indicated rate need compared to the indicated rate need from the filers' most recent filing to the Department.

Proposed new N.J.A.C. 11:2-42.4(i) provides that rating organizations shall not be required to provide any premium or expense data required in this section as some rating organizations file only loss costs.

Proposed new N.J.A.C. 11:2-42.4(j) provides that when the application is from an insurer that is a member of a rating organization, the insurer may refer to the loss and loss adjustment expense data filed by the rating organization to comply with the requirements of the section.

In totality, proposed new N.J.A.C. 11:2-42.4 does not prescribe any rating methodology, unlike existing N.J.A.C. 11:2-42.4. The Department believes that rate filings now incorporate a variety of pricing methods that have evolved over time. The Department has accepted these methods for filings made for standard prior approval rate filings for homeowners insurance under N.J.S.A. 17:29A-1 et seq., and N.J.A.C. 11:1-2.1. Permitting these methods for expedited rate filings made under N.J.A.C. 11:2-42 will promote consistency across subsequent filings from insurers, and will facilitate the Department's review and comparison of filings to an insurer's previous filings. Filers were often unable to comply with the existing provisions for various reasons, including that a new company may have less than five years of experience; a filer may not subscribe to Insurance Services Office (ISO) services, or the filer does not maintain 20 years of catastrophe experience. As a result, many filers would utilize existing N.J.A.C. 11:2-42.4(l), which permits filers to use an alternative method, but eliminates the limited timeframe for the Department to review such filings.

The Department believes that this defeats the purpose of having a prescribed method, if few filers are in a position to utilize such method and they lose the opportunity for a 30-day timeframe for review of such rate filings. The Department, thus, is striking a balance through proposal of new N.J.A.C. 11:2-42.4 to permit varying rating methods, but eliminating the ability to make changes on an expedited basis to rating factors other than those specified in proposed N.J.A.C. 11:2-42.1(c), as amended. This will provide insurers with more flexibility in rating

systems subject to 30-day review and will enable the Department to avoid any difficulties in meeting the 30-day review timeframe for such expedited filings.

The Department is also proposing to repeal the existing Appendix with Exhibits A, B, and C, and to propose new forms as Exhibits A, B, and C, as follows. New Exhibit A in the Appendix is proposed to conform the check list to the filing requirements in N.J.A.C. 11:2-42.3 and 42.4 as proposed herein.

Exhibit B generally remains unchanged. The phrase “in-force exposures” is changed to “policies,” so that the Department may capture impacts at the policyholder level, as opposed to individual homes (if a multi-home policy). The new Exhibit B also eliminates the language “indicate the number of in-force exposure for each category” as the Department believes this is self-evident and, therefore, unnecessary.

Finally, new Exhibit C adds a column for “indicated change.” This column is not a request for new information as this information is provided elsewhere in the filing. Including this information in Exhibit C will expedite the Department’s review of these filings by providing such information in a uniform manner. The Department also is changing the phrase “in-force exposures” to “# of policies” to reflect the changes to Exhibit B set forth above. Finally, the phrase “latest year on-level premium” is proposed to be changed to “annual on-level premium.” The phrase “latest year” was confusing and sometimes interpreted to mean the latest full calendar year, rather than current volume, which was the Department’s intent.

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 notice is excepted from the provisions of N.J.A.C. 1:30-3.1 and 3.2 governing rulemaking calendar requirements.

Social Impact

As set forth above, the proposed amendments, repeals, and new rules, revise the existing filing requirements and methodology used for expedited rate filings for homeowners insurance filed pursuant to N.J.S.A. 17:36-5.35, to reflect current systems and forms used by insurers, and to eliminate the requirement that insurers use a prescribed methodology to have rate filings reviewed within the 30-day time period. The proposed amendments, repeals, and new rules will have a beneficial social impact by broadening the ability of insurers to utilize the expedited rate filing process to further the intent of the Legislature as set forth at N.J.S.A. 17:36-5.35. The proposed amendments, repeals, and new rules will also have a beneficial social impact by eliminating confusion to filers by clarifying the Department's existing intent and by eliminating unnecessary terms and references.

Economic Impact

The proposed amendments, repeals, and new rules, should have no significant additional economic impact on insurers. The information required to be filed under the rules as changed is either currently required under the existing rules or is readily available. Insurers will continue to be required to utilize the professional services of actuaries in compiling and filing rate filings on an expedited basis for homeowners insurance. Insurers should already maintain these services in-house or otherwise be contracted. No additional professional services should be required to comply with the proposed amendments, repeals, and new rules. Filers also may see a reduction in expenses as they will no longer be required to attempt to create rate indications based on a prescribed methodology that they would not normally utilize. In addition, all rate filings will now be reviewed on an expedited basis, not only those under a prescribed methodology, thus

expediting the process for all filings, and eliminating commensurate costs to filers as well as the Department. No additional impacts on policyholders will occur, in that the maximum rate impacts that are permitted under an expedited rate filing as set forth in N.J.S.A. 17:36-5.35 and these rules remain unchanged.

As set forth above, the benefits to be achieved further streamline the rate filing process under the expedited provisions, with no additional costs to filers. Accordingly, the benefits to be achieved through the proposed amendments, repeals, and new rules, outweigh any costs that may be incurred.

Federal Standards Statement

The proposed amendments, repeals, and new rules, are not subject to any Federal requirements or standards.

Jobs Impact

The Department does not anticipate that any jobs will be generated or lost as a result of the proposed amendments, repeals, and new rules. The Department invites commenters to submit any data or studies on the potential jobs impact of the proposed amendments, repeals, and new rules, together with their comments on other aspects of the proposal.

Agriculture Industry Impact

The proposed amendments, repeals, and new rules will not have any impact on the agriculture industry in New Jersey.

Regulatory Flexibility Analysis

The proposed amendments, repeals, and new rules will apply to “small businesses” as that term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq. To the extent the proposed amendments, repeals, and new rules apply to such small businesses, they will apply to all insurers doing business in New Jersey that seek rate changes for their homeowners insurance on an expedited basis. The economic impact and professional services required to comply with the proposed amendments, repeals, and new rules are set forth in the Economic Impact above. The proposed amendments, repeals, and new rules provide no differentiation in compliance requirements based on insurer size. As noted above, the amendments, repeals, and new rules revise the existing requirements for expedited rate filings for homeowners insurance to reflect current methodologies and capabilities of insurers making such filings, and to implement N.J.S.A. 17:36-5.35 more efficiently. These goals do not vary based on insurer size.

Housing Affordability Impact Analysis

The proposed amendments, repeals, and new rules will not have an impact on housing affordability in this State or on the average costs of housing in that the proposed amendments, repeals, and new rules relate to expedited rate filings for homeowners insurance in New Jersey.

Smart Growth Development Impact Analysis

The proposed amendments, repeals, and new rules will not have an impact on smart growth in this State and there is an extreme unlikelihood that the proposed amendments, repeals, and new rules would evoke a change in housing production in Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey in that the proposed amendments, repeals, and new rules relate to expedited rate filings for homeowners insurance in New Jersey.

Full text of the proposed repeals may be found in the New Jersey Administrative Code at N.J.A.C. 11:2-42.4 and 11:2-42 Appendix.

Full text of the proposed amendments and new rules follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

SUBCHAPTER 42. HOMEOWNERS INSURANCE: STANDARD HURRICANE

DEDUCTIBLES AND EXPEDITED PROCESS FOR HOMEOWNERS INSURANCE RATE CHANGES

11:2-42.1 Purpose and scope

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

(c) [These rules] **This subchapter** shall apply **only** to base rate changes by form, territorial [relativities, deductibles] **relativity factors, deductible relativity factors,** protection/construction class **relativity** factors, ["coverage A" and "coverage C"] amount of insurance **relativity** factors, [homeowner's] liability rates and associated liability increased limit factors, **and** minimum premiums[, and other factors and credits].

11:2-42.2 Definitions

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

...

“Earned premium” [or “EP”] means direct[,] earned premium [net of dividends paid or incurred], **including all associated fee income collected under the insurer’s approved rating system.**

...

“Form” means:

- 1.-3. (No change.)
4. Dwelling **Fire**;
5. **Dwelling** Extended Coverage; [and]
- 6. Dwelling Liability; and**
- [6.] **7.** (No change in text.)

...

[“ISO” means the Insurance Services Office, Inc.]

...

[“Qualified actuary” is as defined in N.J.A.C. 11:1-21.1(a)2.]

“Rate change” means a rate increase of no more than five percent overall **for any individual insurer**. Rate change also means any **overall** decrease in rates or a change in rates **for any individual insurer** that is revenue neutral.

[“Written premium (WP)” means direct written premium net of dividends paid or incurred.]

11:2-42.3 Expedited rate filings; general requirements

(a) All filings [shall meet the following requirements and] shall be submitted to the Department through the use of the NAIC electronic filing system SERFF (System for Electronic Rate and Form Filing). **All data fields in SERFF shall be completed per the applicable General Instructions for New Jersey, and the SERFF Filing's General Information Filing Description Section shall be fully completed with a clear and precise description of the filing. All filing exhibits displaying calculations shall also be provided in Microsoft Excel-compatible format, with all applicable formulas displayed in the file.**

[1. The margin at the top of each page shall show the filer's name, filer's identifying number for this filing, NAIC company number(s) and NAIC group number. The right hand side of the page shall show the section, exhibit and sheet number;

2. All data shall be reported on a direct basis exclusive of business ceded to reinsurers or reinsurance assumed from other companies;

3. Data submitted in any prior approval rate or loss cost filing shall report only voluntary market experience and shall not include experience derived from risks insured through any assigned risk plan, except for filings submitted by the FAIR Plan;

4. The most recent accident year data used in the filing shall end no more than 15 months prior to the date of submission of the filing. An accident year need not coincide with a calendar year; and

5. Three copies of the filing shall be submitted.]

(b) An insurer and/or rating organization, pursuant to N.J.S.A. 17:36-5.35 may file for a rate change in accordance with this subchapter. The filer 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; a completed Exhibit C in the subchapter Appendix incorporated herein by reference; a statement containing the effective date of the change; and the name, telephone number and mailing address of the company officer familiar with the filing to whom further inquires regarding the filing may be directed. Filers may choose to eliminate the submission of a cover letter provided that the SERFF Filing's General Information Filing Description Section is fully completed with a clear and precise description of the filing;]

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

[3. The manual rating pages containing the territorial base rates by form to be implemented, accompanied by an explanatory memorandum showing the calculation of the new rates by form, using the existing rates by form as the starting point in the calculation. The memorandum shall also include the company's file number and effective dates for new and renewal policyholders;

4. Completed rating examples using the examples set forth in Exhibits A, B and C in the Appendix to N.J.A.C. 11:4-29, which shows the proposed premium amounts;]

2. The manual rating pages containing all proposed changes in the rating system;

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

[6. By form on a percentage basis, the maximum increase (or smallest decrease if no insured would receive an increase) and maximum decrease (or smallest increase if no insured would receive a decrease), along with a profile of the insured and the number of insureds that would receive each;

7. A list of territorial definitions. If the filer uses the territorial definitions from the latest approved ISO filing, a statement to that effect may be provided in lieu of a list;

8. A completed Justification for Minimum Premium if a change is being proposed. This form can be found on the Department website at <http://www.nj.gov/dobi/propcas.htm#FORMS>, or will be provided by the Department upon request of the filer;]

4. A discussion of the characteristics of policies proposed to receive significant rate impacts (greater than plus/minus 10 percent), and the proposed maximum and minimum rate impacts;

5. A completed Exhibit C in the subchapter Appendix, incorporated herein by reference; and

[9.] **6.** Exhibit(s) showing the effect[s] of each proposed change separately and the overall impact of all changes combined. The exhibit shall include an exposure or premium distribution by item changed (such as, by territory, amount of insurance, protection/construction classification, etc.), with current and proposed factors and calculated changes[, if revisions to these factors are being proposed; and].

[10. A seven-year rate history with effective dates by form.]

(c) (No change.)

11:2-42.4 Expedited rate filings; data requirements

(a) All forms comprising an insurer's homeowners program shall be included, either in aggregate or separately if sufficient credibility of data exists.

(b) Premium, loss, and expense data shall be reported on a direct basis exclusive of business ceded to reinsurers or assumed from other insurers.

(c) Data items shall include:

- 1. Earned premium at present rates using either the extension of exposures or on-level factor method. Provide the relevant rate level history;**
- 2. Premium trend factors, including all data and judgments made, and a description of the method used to select the factors;**
- 3. Earned exposures measured in house years;**
- 4. Paid and/or incurred losses with applicable loss development factors and formulas used;**
- 5. Paid and/or incurred defense and cost containment expense with applicable development factors and formulas used;**
- 6. Paid and/or incurred adjustments and other expenses;**
- 7. Ultimate developed losses and loss adjustment expenses, including a description of the method used to select the ultimate amounts;**
- 8. Paid and/or incurred claim counts with applicable development factors and formulas used;**
- 9. Ultimate developed claim counts, including a description of the method used to select the ultimate amounts;**
- 10. Loss trend factors, including all data and judgments made, and a description of the method used to select the factors;**
- 11. Underwriting expense provisions, including all data and judgments made, and a description of the method used to select the amounts. Filers shall also provide at least a three-year history of expenses as reported in applicable NAIC Annual Statement exhibits;**
- 12. Reinsurance costs, if applicable, including all data and judgments made, and an explanation of how the costs were determined;**

13. Residual market load, if applicable, including all data and judgments made, and an explanation of how the costs were determined; and

14. Profit and contingency provision, including all data and judgments made, and an explanation of how the provision was determined.

(d) Filers shall, when appropriate, adjust loss and loss adjustment expense data to exclude catastrophic events, including individual large losses. Losses may include provisions for expected catastrophic events and expected large losses based on long-term experience or modeled forecasts. If models are used, filers shall provide information regarding all assumptions incorporated into the projections, a sensitivity analysis based on varying the assumptions, and a discussion as to why the specific projections were selected as the best estimate of expected losses.

(e) If there is a proposed change to rating factors, including those applicable to territories, deductible options, protection/construction classes, amount of insurance, or liability increased limit factors, filers shall provide all data used and judgments made, and also a description of the method used to derive the proposed factors.

(f) Regarding any applicable credibility procedures, filers shall provide all data used and judgments made, and a description of the method used to select credibility weights and complements.

(g) 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 expenses.

(h) Filers shall provide a reconciliation of any significant changes to their indicated rate need compared to the indicated rate need from the filer's most recent filing to the

Department. The reconciliation shall address underlying changes in experience as well as changes to any portion of the filer's selected methodology.

(i) Rating organizations shall be exempt from providing any premium or expense data required in (a) or (c) above.

(j) Where the application is by an insurer that is a member of a rating organization, the insurer may refer to the loss and loss adjustment expense data filed by the rating organization to comply with the requirements of this section.

(Agency Note: The text of proposed new Appendix Exhibits A, B, and C below appear without boldface indicating new text; those portions indicated in boldface are intended to be so permanently.)

Appendix	
Exhibit A - Expedited Homeowners Filing Checklist	
	11.2-42.3 - General Requirements
(a)	All data fields in SERFF completed per the applicable General Instructions for New Jersey; SERFF General Information Filing Description Section completed with a clear and precise description of the filing; filing exhibits displaying calculations provided in Microsoft Excel-compatible format, with all applicable formulas displayed in the file.
(b)1	Appendix Exhibit A (this checklist)
(b)2	The manual rating pages containing all proposed changes to the rating system.
(b)3	Appendix Exhibit B
(b)4	A discussion of the characteristics of policies proposed to receive significant rate impacts, and also the proposed maximum and minimum rate impacts for policies.
(b)5	Appendix Exhibit C
(b)6	Exhibit(s) showing the effect of each proposed change separately and the overall impact of all changes combined. The exhibit shall include an exposure or premium distribution by item changed (such as, by territory, amount of insurance, protection/construction classification, etc.), with current and proposed factors and calculated changes.
	11.2-42.4 - Data Requirements
(a)	All forms comprising an insurer's homeowners program shall be included, either in aggregate or separately if sufficient credibility of data exists.
(b)	Premium, loss, and expense data shall be reported on a direct basis exclusive of

		business ceded to reinsurers or assumed from other insurers.
	(c)1	Earned premium at present rates using either the extension of exposures or on-level factor method. Provide the relevant rate level history.
	(c)2	Premium trend factors, including all data and judgments made, and a description of the method used to select the factors.
	(c)3	Earned exposures measured in house years.
	(c)4	Paid and/or incurred losses with applicable loss development factors and formulas used.
	(c)5	Paid and/or incurred defense and cost containment expense with applicable development factors and formulas used.
	(c)6	Paid and/or incurred adjusting and other expenses.
	(c)7	Ultimate developed losses and loss adjustment expenses, including a description of the method used to select the ultimate amounts.
	(c)8	Paid and/or incurred claim counts with applicable development factors and formulas used.
	(c)9	Ultimate developed claim counts, including a description of the method used to select the ultimate amounts.
	(c)10	Loss trend factors, including all data and judgments made, and a description of the method used to select the factors.
	(c)11	Underwriting expense provisions, including all data and judgments made, and a description of the method used to select the amounts. Filers shall also provide at least a 3-year history of expenses as reported in applicable NAIC Annual Statement exhibits.

	(c)12	Reinsurance costs, if applicable, including all data and judgments made, and an explanation of how the costs were determined.
	(c)13	Residual market load, if applicable, including all data and judgments made, and an explanation of how the costs were determined.
	(c)14	Profit and contingency provision, including all data and judgments made, and an explanation of how the provision was determined.
	(d)	Filers shall, when appropriate, adjust loss and loss adjustment expense data to exclude catastrophic events, including individual large losses. Losses may include provisions for expected catastrophic events and expected large losses based on long-term experience or modeled forecasts. If models are used, filers shall provide information regarding all assumptions incorporated into the projections, a sensitivity analysis based on varying the assumptions, and a discussion as to why the specific projections were selected as the best estimate of expected losses.
	(e)	If there is a proposed change to rating factors, including those applicable to territories, deductible options, protection/construction classes, amount of insurance, or liability increased limit factors, filers shall provide all data used and judgments made, and also a description of the method used to derive the proposed factors.
	(f)	Regarding any applicable credibility procedures, filers shall provide all data used and judgments made, and a description of the method used to select credibility weights and complements.
	(g)	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 expenses.
	(h)	Filers shall provide a reconciliation of any significant changes to their indicated rate need compared to the indicated rate need from the filer's most recent filing to the Department. The reconciliation shall address underlying changes in experience as well as changes to any portion of the filer's selected methodology.

Exhibit B – Size of Rate Change Distribution

Policy Count As Of: _____

Overall Rate Change	# Policies	% Distribution
Above 40%		
+35 to 40%		
+30 to 35%		
+25 to 30%		
+20 to 25%		
+15 to 20%		
+10 to 15%		
+5 to 10%		
0% to 5%		
No change		
-5% to 0%		
-10% to -5%		
-15% to -10%		
-20% to -15%		
Less than -20%		
Total		

Exhibit C							
Form	Indicated Change	# Policies	Annual On- Level Premium	Proposed Percentage Change	Proposed Dollar Effect	Current Average Premium	Proposed Average Premium
HO - Owners							
HO - Tenants							
HO - Condo							
HO Total							
Dwelling Fire							
Dwelling Ext. Cov.							
Dwelling Liability							
Dwelling Total							
Mobilehomeowners							