

RFR -1 Filing Requirements

To be used for rate filings that includes actuarial justification.

General Filing Information

- Filings must be submitted in both paper (1 copy) and electronic form. Paper copies are to be submitted to:

NBIB
Attention: Ms. Kelly Ferris
Manager Insurance Services
600 – 55 Union St
Saint John, NB
E2L 5B7

- Attachments to email filing are to be submitted to filings@nbib-canb.org **and must include** in the subject line the company name, date, and type of filing, class of filing, filing or amendment.
Company 2008 Sep 1 RFR-1 PPV filing, amendment
- Attachments should be sent in Excel or Word format.
- Separate filings must be submitted for each type of filing i.e., commercial, motorcycles, ATV, snowmobiles or interurban. If an insurer is submitting filings for more than one company, separate emails must be sent for each company/filing. ***Failure to comply with this rule will result with email being returned with request to re-submit separately.***
- Sections are to be divided into Non-Confidential, Confidential and Actuarial.
- Actuarial Pages Must Be Numbered.** Each section and subsection should be labeled according to the section and subsection numbering outlined in RFR-1.
- The pages must be 3 hole punched and presented in a 3 ring binder size compatible with the thickness of the document.
- Filing Guidelines are used by the Board as references, but should not limit an insurer from exercising appropriate judgment in ratemaking.
- A copy of all Info Bulletins may be found on the Board's website once they have been translated.

Procedures for Amendments

- Queries from the Board or by the Board's consulting actuaries must be responded to within four business days.

- Amendments are to be submitted **electronically only**, unless otherwise directed by the Board. Email must include in the subject line the date, company name, type of filing, class of filing and amendment.
- For amendments to **other than Actuarial data**, please make amendment and re-submit entire spreadsheet indicating in the email the details of the amendments and also include the cell(s) affected. Example - *“Included is an amendment to the RFR -1 Confidential. The “Prior Indicated Rate Change for DCPD” (Cell E18) has been amended from -6% to 1%. This change will also affect cells E22 and E30.”* The amendment date must be inserted into Row 5.
- **Actuarial pages must be sequentially numbered to match original filing numbering.** If an amendment is an additional page to be inserted between page 98 and 99, please label it 98a. It would be appreciated if companies would indicate if the page is additional or replacement page. **Indicate the portion of the page amended** by means of a vertical line, an asterisk or other similar marking, in the margin opposite to the amendment.

Board Review Process

- Upon receipt of a filing, each insurer will receive an acknowledgement letter from the Board. The filing will then be reviewed for completeness based on the filing guidelines. The Board or its consulting actuaries will review the technical components of the filing and may request further information from the insurer.
- Once a filing is deemed complete, the filing will be reviewed by a panel of the Board and a Decision will be rendered.
- Once a Decision has been rendered by the Board a company has 30 days to supply the Board with an updated rate manual.
- Companies will be advised via email once filing has been approved. Signed Official Decisions will be sent to insurers at a later date.
- The Decision will then be written, translated and posted to the Board’s website.
- Decisions for approved filings can be found on the Board’s website at www.gnb.ca/nbib-canb/index-e.asp

Confidentiality

- With the new filing guidelines the Board will separate the Confidential and Non-Confidential information. This will allow us to quickly access only the Non-Confidential sections of the filings if we have a request to view the filing or any related non-confidential documents. This procedure is in keeping with the Decision of the Board regarding Confidentiality (www.nbib-canb.org/genericdecisions-e.asp)

Technical Notes

- For the purpose of determining New Brunswick driving experience, insurers must credit new drivers with at least 3 years driving experience and operators with drivers training must be credited with Driving Record 6, provided that the driver has had no chargeable convictions or at fault accidents.
- No Frills is no longer offered to policyholders as of April 30, 2008.
- The Estimated Health Services Levy will not be released by The Department of Health until July 2009. The Board will advise the proper percentage to be used in the filings, at that time and will post it on the website.
- The 2010 tax rate has not yet been released. The Board will advise as soon as it becomes available.

OMISSION OF ANY OF THE GENERAL FILING OR DISCLOSURE REQUIREMENTS WILL RESULT IN A DELAY OF THE REVIEW PROCESS.

Sections Required

Non-Confidential Section

- Excel spreadsheet “Summary Sheet for RFR-1 Non-Confidential”
- A letter signed by an officer of the company on whose behalf the filing is being made, granting the individual identified under disclosure requirement #1 the authority to submit the filing. Authorized officers are the President, CEO, COO, CFO, any vice-president, the treasurer, or the corporate secretary or Chief Agent for Canada for the Company. The person signing this letter cannot be the same individual indicated in #1 above.
- The company rate manual pages reflecting the proposed filing including underwriting rules and discounts and surcharges must be included in the filing even if No Change is proposed. Current and proposed underwriting and rating rules must be included. In addition, once the filing has been approved, companies must submit the applicable pages to be updated in the Board’s copy of the rates and rules manual for each individual company. Copies on CD are acceptable and preferred by the Board. Updates must be sent to the Board within 30 days of being notified of approval.

Confidential Section

- Excel Spreadsheet “Summary Sheet for RFR-1 Confidential”
- Excel Spreadsheet “Summary Sheet for RFR-1 Actuarial Justification”
- A summary of the current & proposed base premiums (Liability, DCPD, SEF 44, Accident Benefits, Uninsured Automobile, Collision, Comprehensive, Specified Perils, All Perils, and, if applicable, Health Services Levy), and the current & proposed rating classification differentials and discount and surcharge factors. Also include a description of the rating algorithm for each coverage.
- A completed portion of Exhibit II – Rating Profiles, as appropriate based on the company’s primary target market as declared. Please complete profiles exactly as shown even if this risk would not be written or coverage’s offered and make note under classification treatment to this effect. If there is more than one driver listed on the profile, please complete an individual profile for each driver and also a combined profile with both drivers **Profiles must be completed for dependant categories also.**

- **Actuarial Justification**

Filing Guidelines are used by the Board as references, but should not limit an insurer from exercising appropriate judgment in ratemaking.

Usage of any third party analysis requires permission from that party. Permission is implicitly given to all IAO subscribers with regard to their usage of the IAO analysis by IAO.

The insurer must provide detailed support for any rate level selection **even if the insurer is proposing for no change**. Actuarial support should contain the data and narrative description of all ratemaking steps for each of the specific rate changes being proposed. At a minimum, detail should be provided for liability - bodily injury, liability - property damage, accident benefits, uninsured automobile, direct compensation - property damage, collision, comprehensive, all perils, specified perils and SEF 44, **even if the proposed rate level change is nil for each of these coverages**. Each subsection, outlined below, should contain the necessary documentation for all of the individual coverages (e.g., the section on loss trend should contain loss trend documentation for liability, accident benefits, collision, etc.). In general, documentation should be in sufficient detail to enable the reviewer to trace the resulting rates from the raw data experience and other support data. NBIB does not require insurers to use a specific ratemaking methodology. However, insurers are required to provide adequate actuarial documentation and support for the rate levels subject to prior approval.

All support provided in this section should reconcile to the Territorial Change Exhibit (Exhibit I).

- If the filing proposes a change in rate level without any change to classification, limit of liability, deductible or other rate differentials, then sections (15.a.) - (15.k.) must be completed.
- If the filing proposes to change classification, limit of liability, deductible, or other rate differentials without generating any overall rate level change, then only sections (15.l.) - (15.m.), as applicable, need to be completed.
- If filing proposes a change in rate level plus a change in classification, limit of liability, deductible, or other rate differentials, then sections (15.a.) - (15.k.) **and** sections (15.l.) - (15.m.), as applicable, must be completed.

Non-compliance with any of these rules will result in a delay of the review process.

The support for an overall rate level change should be comprised of the following subsections, **in the order set out below**. Each section or subsection must be labeled according to the numbering scheme provided and contain all data, data definitions and sources, and any narrative necessary to explain or clarify the various ratemaking steps.

Overall Rate Level Indication:

- A. Overall Description of the Ratemaking Methodology and Summary
- B. Losses

1. Loss Development
2. Loss Trend
3. Treatment of Large Losses
4. Catastrophe (or Excess Claim) Procedure
5. Other Adjustments

C. Allocated Loss Adjustment Expenses (ALAE)

1. ALAE Development
2. ALAE Trend
3. Catastrophe Procedure
4. Other Adjustments

D. Unallocated Loss Adjustment Expenses (ULAE)

E. Premium

1. On-level Adjustments
2. Premium Trend
3. Other Adjustments

F. Other Expenses

1. Exposure Variable Expenses
2. Premium Variable Expenses

G. Profit Provisions

H. Credibility

I. Other Adjustments

J. Summary Rate Level Indications

Rate Differential Indications:

K. Territorial Indications

1. Indicated Differentials
2. Off-balance

L. Classification/Limit of Liability/Deductible or Other Rate Differential Indications

1. Indicated Differentials
2. Off-balance

M. Discounts/Surcharges

1. Indicated Discounts or Surcharges

2. Off-balance

A. Overall Description of the Ratemaking Methodology and Summary

An insurer may use either a pure premium or a loss ratio ratemaking approach. This section should indicate the type of approach used and generally outline the process in a summary narrative. A general description of the data should also be included. Specific and detailed information on the data should be included in the appropriate subsections using that data. For example, liability loss data should state whether it is for all limits combined or if it is for a specific (basic) limit.

The filing should include the most recent complete year of data that is available. Should the filing rely on industry experience, we would expect any filing received after industry data is released to include the most recent industry data (i.e. assuming that industry data for the 2007 accident year is released on June 1, 2008 any filing made after that date should include 2007 accident year data).

Insurers are requested to use weights consistent with the last filing presented to the Board. If the weights used in the filing have changed, justification and rationale will be required.

B. Losses

If losses are considered together with ALAE that should be noted in this section and all references to "loss" in this subsection should be considered as referring to "losses and allocated loss adjustment expenses." In this event, subsection (15.c.) can be omitted.

The type of loss data should be described in this subsection (i.e., accident year or policy year). Where another basis is used, justification must be provided.

The experience period and the respective valuation dates should also be noted. The source of the data should be clearly noted (e.g., company internal data, company data as reported by IBC).

Direct losses (i.e. prior to any reinsurance transactions) should be the basis for ratemaking and should **not** be reduced by the insurer's cession to the Risk Sharing Pool. Direct losses should **not** include losses incurred on the Facility Association Residual Market risk business. Similarly, **where industry-wide statistics are used, Facility Association Residual Market Risks results should be excluded.**

The justification should also state whether the loss data are gross or net of salvage and subrogation.

B.1. Loss Development

The data must be developed to an ultimate level through the use of an appropriate loss development procedure.

The specific loss development approach used in the filing should be outlined and the details of the calculations should be disclosed in this subsection. All judgments associated with the process of loss development should be disclosed in detail and supported (e.g., the selection of loss development factors).

Loss development should be based on the insurer's own data to the extent possible. At a minimum, the history of unadjusted company loss development data valued at 12-month intervals should be provided (so-called "triangles" of loss valuations at various stages of development). In very few cases should it be necessary to rely on outside data. Should the insurer find it necessary to rely on outside data or a different source of internal data (such as affiliated company data), the filing must identify the source of the data and provide an explanation of its applicability. All data used in the process of loss development must be

exhibited and labeled (e.g., are the losses paid or case incurred, what are the dates of valuation). **An analysis of DCPD losses based on internal company data should be included for applicable classes.**

Please provide the sections of the Report of Actuary which contains the New Brunswick information pertinent to this filing on an undiscounted basis. For example, if the New Brunswick Bodily Injury data is included as part of the Atlantic Canada Bodily Injury line of business in the Report of Actuary; provide the Atlantic Canada Bodily Injury section of the Report of Actuary.

If credibility procedures are used in loss development, the selection of the credibility criterion should be disclosed. The application of the credibility standard should be presented, and the complement of credibility should be disclosed and supported.

The general approach to loss development can be expected to remain reasonably constant over the years for an insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

B.2. Loss Trend

The specific loss trend approach used should be outlined and the details of the calculations should be disclosed in this subsection. All judgments associated with the process of loss trend should be disclosed in detail and supported.

Loss trend should make use of the insurer's own data for each class of insurance and coverage to the extent possible. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating annual loss trend must be exhibited, at least in summary form, and labeled (e.g., are losses paid or incurred, developed or undeveloped).

Historical information should be adjusted to be on a comparable basis by considering changes in benefit levels or in legislation that having occurred.

If credibility procedures are used in estimating loss trend, the selection of the credibility criterion should be disclosed. The application of the credibility standard should be presented, and the complement of credibility should be disclosed and supported.

The length of the trend period will depend on the term of coverage offered by the insurer, the proposed effective date, and the valuation date of the loss data. Each of these items must be disclosed. If trend is divided into past trend and future trend components, each component must be fully disclosed and supported in the detail described above.

The general approach to estimating loss trend can be expected to remain reasonably constant over the years for an insurer. Any changes in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

B.3. Treatment of Large Losses

The filing should clearly indicate how large losses in the experience period have been handled. If losses have been capped, the number of such losses and the effects of the caps must be demonstrated. The insurer should ensure that large losses do not cause significant instability in the rates from one period to the next.

If a large loss loading is used, justification must be provided for the derivation of the loading and the method in which the loading is applied.

B.4. Catastrophe (or Excess Claim) Procedure

Please note that the province of New Brunswick is rarely impacted by catastrophes. The NBIB does not expect that there should be a loading for this.

Comprehensive, specified perils, and all perils Coverages may be subject to losses arising from natural catastrophes. If a procedure is used to estimate the impact of such losses, that procedure should be included in this subsection.

The specific catastrophe procedure used should be outlined and the details of the calculations should be disclosed and supported. All judgments associated with the process of calculating the catastrophe provision should be disclosed in detail and supported.

The catastrophe procedure should make use of the insurer's own data to the extent possible, augmented where necessary by other relevant data. All data used in calculating a provision for catastrophe losses must be exhibited and labeled.

The general approach to estimating catastrophe losses can be expected to remain reasonably constant over the years for an insurer. Any changes in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

B.5. Other Adjustments

Any other adjustments to the loss data should be disclosed, documented, and supported in this subsection.

Data must be exhibited and labeled, procedures must be outlined, and changes from the prior rate filing must be noted.

C. Allocated Loss Adjustment Expenses (ALAE)

If ALAE are considered separately from losses, provide the same detailed information as for the losses in subsection (15.b.).

D. Unallocated Loss Adjustment Expenses (ULAE)

The specific ULAE approach used should be outlined and details of the calculations should be disclosed and supported. All judgments associated with the estimation of ULAE should be disclosed in detail and supported.

The estimate of ULAE should make use of the insurer's own data for each class of insurance and coverage to the extent possible. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating ULAE must be exhibited and labeled (e.g., are the ULAE paid or incurred, calendar year or accident year, expressed as a “%” of losses or premiums).

The general approach to estimating ULAE can be expected to remain reasonably constant over the years for the insurer. Any change from the prior rate filing in either the approach or the underlying data should be disclosed and supported.

E. Premium

The premium data should be described in this subsection. The experience period and the source of the premium data must also be disclosed. Direct premiums (i.e., prior to any reinsurance transactions) should be the basis for ratemaking and should not be reduced by the insurer's cessions to the Risk Sharing Pool. **Direct premiums should not include premiums for the Facility Association Residual Market risk business.**

E.1. On-level Adjustments

If an insurer uses a loss ratio approach to ratemaking, earned premium must be adjusted to the level of the present rates through the use of an appropriate on-level procedure. Both the unadjusted and the adjusted premiums should be displayed.

If on-level adjustments are made by means of a factor approach (e.g., parallelogram), the calculations should be disclosed. If on-level adjustments are made by means of calculating premiums at present rates through computer re-rating of policies (i.e. extension of exposures), a description of the process should be provided with a comparison of the results to the results obtained using the parallelogram method. Any significant difference should be explained.

The insurer's history of rate changes for each coverage for the prior five years should be included in this section.

E.2. Premium Trend

Premium trend should be considered for coverages with inflation-sensitive exposure bases or for coverages where a changing mix of exposures may result in a corresponding change in premium income to the insurer. The changing mix of exposures with respect to the makes and models of cars for physical damage coverages is an example of a change in mix of exposures which could produce premium trend. (Under **CLEAR** [Canadian Loss Experience Automobile Rating], premium trend is already accounted for in the development of the rate groups.)

The specific premium trend approach used in the filing should be outlined and details of the calculations should be disclosed and supported. All judgments associated with the process of premium trend should be disclosed in detail and supported.

Premium trend should make use of the insurer's own data to the extent possible. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating premium trend must be exhibited and labeled.

The general approach to estimating premium trend can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed, explained, and supported.

E.3. Other Adjustments

Any other adjustments to the premium data should be disclosed, documented, and supported in this subsection.

Data must be exhibited and labeled, procedures must be outlined, and changes from the prior rate filing must be noted.

F. Other Expenses

Other expenses (i.e., non-claims related expenses) should be divided between exposure variable (fixed) and premium variable (variable) expenses in a manner that is consistent with the way the insurer conducts its business, the manner in which expenses are incurred, and the type of unit insured. The details of this segregation of expenses should be disclosed and documented.

Where an insurer is proposing to vary rates based on the type of distribution system, separate expense statistics must be maintained and filed in support of the rates.

For the latest year, the allocation of expenses to the class of insurance filed should also be reported.

There should be no expense provision established in respect of the Facility Association Residual Market, unless there is a known subsidy in its operation. Risk Sharing Pool should be treated as direct business and therefore should be reflected in the direct loss and premium data.

No additional expense should be provided for by servicing carriers in respect of servicing Facility Association business, as such costs should be reflected in the rates charged by the Facility Association.

F.1. Exposure Variable Expenses (Fixed)

Some expenses can be expected to vary in relationship to the number of units insured (exposures) rather than in relationship to the premium volume.

The specific approach to estimating exposure variable expenses used in the filing should be outlined and details of the calculations should be disclosed. All judgments associated with the process of estimating exposure variable expenses should be disclosed in detail and supported.

Exposure variable expenses should make use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating exposure variable expenses must be exhibited and labeled.

Exposure variable expenses are subject to trend. The elements of trend discussed in subsection (15.b.2.) apply to this subsection as well.

The general approach to estimating exposure variable expenses can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

F.2. Premium Variable Expenses (Variable)

Some expenses can be expected to vary in relationship to the premium volume rather than in relationship to the number of units insured.

The specific approach to estimating premium variable expenses used in the filing should be outlined and details of the calculations should be disclosed. All judgments associated with the process of estimating premium variable expenses should be disclosed in detail and supported.

Premium variable expenses should make use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of internal data to estimate these expenses, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating premium variable expenses must be exhibited and labeled.

The general approach to estimating premium variable expenses can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

G. Profit Provisions

The target return on equity should be set forth in this subsection. The resulting target underwriting profit margin to be used in the ratemaking process should be derived from the target rate of return on equity. The filing should show this derivation in sufficient detail to permit the reviewer to follow the entire process.

The specific approach to determining the target rate of return on equity underlying the rates in the filing should be outlined and the details of the calculations should be disclosed and supported. All judgments associated with the process of calculating the profit provision, should be disclosed and supported.

In estimating the expected investment income attributed to policyholder supplied funds and equity, the insurer should take into consideration new money rates and the insurer's historical investment returns.

All data used in the process of selecting the target return on equity and the resulting target underwriting profit margin must be exhibited and labeled. At a minimum, the payout pattern (for each coverage and sub-coverage) expected to apply to the losses and expenses should be disclosed and supported.

If the proposed rates are different from those which are actuarially indicated based on the target rate of return on equity, the insurer must provide an estimate of the expected return on equity and the expected underwriting profit margin underlying the proposed rates.

The general approach to calculating the profit provisions can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

Please provide an indication only with the following assumptions:

ROE 12% and 2:1 premium-to-surplus ratio

H. Credibility

The New Brunswick experience of the insurer may not be of sufficient volume to produce stable overall province-wide rate level indications that are actuarially credible. In such cases, credibility procedures can be useful as a means of augmenting the insurer's New Brunswick data.

The standard for 100% credibility and the formula for calculating partial credibility should be disclosed and supported.

The data source used as the ballast to which the complement of credibility applies should be disclosed and supported.

The approach to credibility can be expected to remain reasonably constant over the years for the insurer. Any changes from the prior rate filing in the credibility standard or procedure should be disclosed and supported.

I. Other Adjustments

Any other adjustments made to the data which affect expected premium or losses must be quantified and their effect on the rates must be disclosed and supported in this section.

J. Summary Rate Level Indications

Summary sheets must be provided showing how the data combines with the adjustments and provisions outlined in subsections (15.b.) - (15.i.). The insurer may use forms that are relevant to its particular situation. If more than one year of loss and/or premium data is used in the ratemaking process, the weight that each of the years receives must be disclosed. If these weights are different from the insurer's prior filing, the change must be disclosed, explained, and supported.

K. Territorial Indications

The Board acknowledges that companies may wish to define their rating territories differently from the statistical territories defined by the Stat Plan. The Board has no objection to this practice. However, in reviewing the applications the Board will judge the submission using the following guidelines:

- If a company chooses to deviate from the existing 11 territorial boundaries, they must continue to use these new territorial boundaries for a minimum of three (3) years.
- All territories must be of consistent geographic areas that are contiguous i.e., have a common boundary. Territories are intended to measure risk characteristics such as road conditions, vehicle density, speed limits, crime rates, and terrain and weather conditions. There must be some common underlying characteristics in defining the territory, and therefore it is logical that a territory should be comprised of contiguous geographical areas. A single common point is not considered contiguous.
- In establishing territorial rates, large claims should be capped. So that large claims do not distort the underlying analysis of loss costs, and to avoid rate instability, large claims should be capped, subject to actuarial considerations.
- For any insurer who defines territories differently from the statistical plan, should show its current rate, proposed rate and the rate change for each of its actual pricing territories in addition to the existing eleven territories defined by the statistical plan in each rating profile.
- If Canada Post modifies the boundaries of an existing FSA then the company must file with the Board the manner in which the change in territory definition will be implemented.
- A common territorial definition should be used by an insurer for all coverages. While data should be examined separately by major coverages, there should be a common territorial definition that the insurer uses for all coverages.

K.1. Indicated Differentials

Territorial indications should be calculated by making use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of developing territorial indications must be exhibited and labeled.

A comparison of current indicated, and proposed territorial differentials must be provided for each coverage for which rates are changing by territory. Included in this should be the written premium distribution and the exposure distribution by coverage, by territory.

If credibility procedures are used, they must be disclosed and supported in the same detail as outlined in subsection (15.h.).

The general approach to calculating territorial differentials can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

K.2. Off-balance

The aggregate premium may be increased or decreased through the introduction of new territorial rates or rate differentials or by changes to existing ones. The filing must account for these changes through the use of off-balance procedures or by accounting for the premium change in its rate level. In the event that the change in territorial differentials is not off-balanced and instead a rate level change is generated, subsections (15.a.) - (15.j.) must also be completed.

All data used in the process of calculating the off-balance must be exhibited and labeled. The calculation of the off-balance amount must be shown. All judgments associated with the process of calculating the off-balance should be disclosed and supported.

Off-balance calculations should make use of the insurer's own distribution of business. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance.

The general approach to calculating the off-balance can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

K.3. Definitions

Any changes to territorial definitions must be accompanied by a map clearly showing current and proposed territorial boundaries.

L. Classification/Limit of Liability/Deductible or Other Rate Differential Indications

L.1. Indicated Differentials

If the insurer is requesting changes in classification differentials, limit of liability differentials, deductible differentials, or other rate differentials, the ratemaking process must be outlined in detail.

Classification, limit of liability, deductible, and other rate differential indications should make use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of company data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of developing classification, limit of liability, deductible, or other rate differential indications must be exhibited and labeled.

A comparison of current, indicated, and proposed differentials must be provided for each coverage for which classification, limit of liability, deductible, or other rate differentials are changing. Included in this should be the written premium distribution and the exposure distribution by classification, limit of liability, deductible or other rate differential.

If credibility procedures are used, they must be disclosed in the same detail as outlined in subsection (15.h.).

The general approach to calculating rate differentials can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

L.2. Off-balance

The aggregate premium may be increased or decreased through the introduction of new classification, limit of liability, deductible, or other rate differentials or by changes to existing ones. The filing must account for these changes through the use of off-balance procedures or by accounting for the premium change in its rate level. In the event that the change in classification, limit of liability, deductible, or other rate differentials is not off-balanced and instead a rate level change is generated, subsections (15.a.) - (15.j.) must also be completed.

All data used in the process of calculating the off-balance must be exhibited and labeled. The calculation of each off-balance must be shown. All judgments associated with the process of calculating the off-balance should be disclosed and supported.

Off-balance calculations should be based on the insurer's own distributions of business by classification, limit of liability, deductible, or other rate differential. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance.

The general approach to calculating the off-balance can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

M. Discounts/Surcharges

M.1. Indicated Discounts or Surcharges

The ratemaking process must be outlined in detail where an insurer proposes to introduce or make changes to:

- a discount or surcharge based on membership in a group; or
- discounts or surcharges that vary among groups.

A discount or a surcharge based on group membership could be based on lower (higher) loss costs based on (un) favorable experience, or identifiable characteristics of a group that would result in lower or higher loss exposure.

Insurers should maintain separate premium and loss statistics to support a discount or surcharge based on group membership. The basis of the discount or surcharge should be defined in sufficient detail so that naming individual organizations is not necessary. Insurers are **not** expected to develop a unique discount or surcharge for a specific group unless such a group is of sufficient size that its own experience supports such a discount or surcharge. Support for discounts and surcharges must be actuarially credible and therefore only in the instance of large groups would a unique discount or surcharge be appropriate. In the case where more than one discount or surcharge is proposed, (e.g., variation of discounts or surcharges based on types of groups), a list of groups and discounts or surcharges applicable is required to be submitted with the filing, as well as on a periodic basis.

The insurer's own loss data should be used to the extent possible. If the insurer finds it necessary to rely on outside data or a different source of company data, the insurer must identify the source of the data and provide an explanation of its applicability. All data used in the process of developing the indicated discounts or surcharges based on group membership should be exhibited and labeled.

A comparison of current, indicated and proposed discounts or surcharges must be provided for each coverage when a change is proposed. Included in this should be the written premium distribution and the exposure distribution by discounts or schedule of rates.

If credibility procedures are used, they must be disclosed in the same detail as outlined in subsection (15.h.).

The general approach to calculating discounts or surcharges based on group membership can be expected to remain reasonably constant over the years. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

M.2. Off-balance

The aggregate premium may be increased or decreased through the introduction of new discounts or surcharge, or by changes to existing ones. The filing must account for these changes through the use of off-balance procedures or by accounting for the premium change in its rate level. In the event that the change in discount or surcharge is not off-balanced and instead a rate level change is generated, subsections (15.a.) - (15.j.) must also be completed.

All data used in the process of calculating the off-balance must be exhibited and labeled. The calculation of each off-balance must be shown. All judgments associated with the process of calculating the off-balance should be disclosed and supported.

Off-balance calculations should be based on the insurer's own distribution of business for group discounts or surcharges. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the circumstances.

The general approach to calculating the off-balance can be expected to remain reasonably constant over the years. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.