



January 2016

State of California  
Department of Insurance  
300 S Spring Street  
Los Angeles, California 90013

## NOTICE

### INSTRUCTIONS FOR ALLOCATION OF EXPENSE DATA

#### To All Insurers Selling Credit Property and Credit Unemployment Insurance in the State of California:

Please be advised of the following data call filing requirements relating to loss experience to be filed with the Commissioner pursuant to California Insurance Code Section 779.36.

Expenses shall be allocated to state, general product category, class and program using methods consistent with **Actuarial Standard of Practice Number 29**<sup>1</sup> and consistent with or analogous to the rules applicable to the statutory **Annual Statement and the Insurance Expense Exhibit**<sup>2</sup> and **11 NYCRR Part 105 (Regulation 30), Operating Expense Classifications for Annual Statement Purposes**.<sup>3</sup>

Premium should not be used as the allocation base except where the expense is determined as a percent of premium by contract (*as may be the case with commissions*) or by law (*as may be the case with premium tax*). Fixed expenses should not be allocated on a basis directly proportional to premium. However, in the event any allocation basis is used that deviates from the standard allocation basis as described above, the reason for the choice of such an allocation basis must be justified and a detailed description of the allocation basis must be provided. An explanation as to why standard allocation methodologies cannot be used will also be required. **Expenses allocated by premium will be treated as variable expenses.**

Companies shall provide work papers showing the calculations underlying all allocations. For defense and cost containment expense (*formerly known as allocated loss adjustment expenses*), commissions and premium tax, the starting point of the allocation shall be the California State page of the Annual Statement. For the other expense categories, the starting point shall be the Insurance Expense Exhibit.

Section 779.9 of the California Insurance Code requires the Commissioner to disapprove credit insurance rates **"if the benefits provided therein are not reasonable in relation to the premium charge"**. If the reported expenses in this data call exceed 50% of the claims payments reported in the previous call, the company shall explain why the benefits are reasonable in relation to the premium charged.

While the Commissioner will consider all data received pursuant to this data call, expense data submitted in compliance with these instructions may be given greater weight than expense data allocated using other inappropriate methodologies.

Questions regarding the contents of this notice shall be made to Mr. William Hirschhorn of the Rate Specialist Bureau, at (213) 346-6771, or by Fax at (213) 897-6361, or by E-Mail at [RSBcredit@insurance.ca.gov](mailto:RSBcredit@insurance.ca.gov).

Failure to respond to this data request, in a timely fashion, in keeping with the instructions contained herein, may constitute acts in noncompliance with various provisions of the California Insurance Code. Please refer to California Insurance Code Sections 779.36 and 1857 and California Code of Regulations Section 2360.6. Acts in noncompliance may result in formal administrative enforcement actions, which may in turn result in fines, revocation or suspension of a Certificate of Authority and / or other penalties.

<sup>1</sup> Actuarial Standard of Practice No. 29: [http://actuarialstandardsboard.org/pdf/asops/asop029\\_056.pdf](http://actuarialstandardsboard.org/pdf/asops/asop029_056.pdf)

<sup>2</sup> Annual Statement and Insurance Expense Exhibit info: [http://www.naic.org/site\\_map.htm](http://www.naic.org/site_map.htm)

<sup>3</sup> A copy of this document in Adobe Acrobat format will be made available upon request.