

# Prior Approval Rate Application - Data Quality and Reconciliation Checklist

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**State of California  
Department of Insurance**

**May 21, 2018 Edition**

The industry has asked the Department to: 1) identify common issues the Department encounters when trying to ensure it has the information necessary to process a rate filing; and 2) provide guidance on what an insurer can do to facilitate the Department's review of rate applications. This checklist highlights the common data reconciliation errors the Department encounters when reviewing an insurer's filing and describes actions an insurer can take to prevent the errors and the associated delay caused by such errors. This checklist is not intended to be a complete summary of everything an insurer needs to do to ensure their Prior Approval Rate Filing ("filing") is fully compliant with all applicable California laws and regulations.

### ***Prior Approval Rate Template ("Rate Template")***

- ☐ Use the most recent version of the Rate Template posted on the California Department of Insurance's website and SERFF.

### ***Premium***

*Compare written and earned premiums in the filing between the following sources:*

- ☐ Statutory Page 14 Direct Earned Premium (Annual Statement Exhibit of Premiums and Losses)
- ☐ Rate Template Page 6 ("Ratemaking Data" tabs)
- ☐ Application Page 5 ("Reconciliation" tab)
- ☐ Exhibit 4 (Premium Adjustment Factors)
- ☐ Standard Exhibits Template ("Exhibit 5" tab - Premium Trends)

Application Page 5 ("Reconciliation" tab) requires insurers to itemize each Coverage/Form/Program written under the applicable line of insurance (or lines of insurance, for Private Passenger and Commercial Automobile) so that all data provided on this page reconciles to the annual statement totals of the corresponding line(s) of insurance. Please include entries for any other miscellaneous Coverages/Forms/Programs for which no template was provided, that when aggregated with the filed Coverages/Forms/Programs, roll up to the totals of the appropriate line(s) of insurance on the annual statement.

The level of granularity of Application Page 5 for the filed Coverages/Forms/Programs should be consistent with each Coverage/Form/Program entered on the "General" tab of the Rate Template. For instance, Private Passenger Auto filings should include separate entries for Bodily Injury, Property Damage, etc.

### ***Earned Exposures***

*Compare exposures in the filing between the following sources:*

- ☐ Rate Template Page 6 ("Ratemaking Data" tabs) – Earned Exposures
- ☐ Standard Exhibits Template ("Exhibit 5" tab - Premium Trends) – Earned Exposures
- ☐ Standard Exhibits Template ("Exhibit 8" tab – Loss & DCCE Trends) – Earned Exposures  
[Note: Reconciliation of exposures between Rate Template Page 6 or Standard Exhibits Template Exhibit 8 and Standard Exhibits Template Exhibit 5 is only possible if the insurer provides Exhibit 5 based on *earned* premium and exposure data.]

### ***Paid Losses***

*Compare the calendar year (or fiscal-calendar year) paid losses in the filing between the following sources:*

- ☐ Standard Exhibits Template (“Exhibit 7” tab - Loss & DCCE development)
  - ☐ Standard Exhibits Template (“Exhibit 8” tab - Loss & DCCE trend)
- [Note: If there are valid reasons for the discrepancies found in the paid losses between Exhibits 7 and 8, provide an explanation for those discrepancies. An example of a valid reason for a discrepancy is that DCCE or subrogation and salvage are included in one exhibit but not the other. In these cases, provide the reconciling item (e.g., DCCE, or subrogation and salvage).]

### ***Reported Claim Counts***

[Note: The Department considers “reported claim counts” to be the sum of “counts for claims closed with payment”, “counts for claims closed without payment”, and open (pending) claims; that is, all claims reported to the insurer by its insureds regardless of their subsequent status.]

*Compare the calendar year (or fiscal-calendar year) reported claim counts in the filing between the following sources:*

- ☐ Standard Exhibits Template (“Exhibit 7” tab - Loss & DCCE development)
- ☐ Standard Exhibits Template (“Exhibit 8” tab - Loss & DCCE trend)

### ***Inputs into Rate Template Page 6 (“Ratemaking Data” tabs) from Exhibits***

*Check to see if the figures in the input section of Rate Template Page 6 (“Ratemaking Data” tab) match the figures from:*

- ☐ Exhibit 4 – PAFs (premium adjustment factors, also known as OLFs or on-level factors)
- ☐ Exhibit 5 – premium trend factors, annual % trend
- ☐ Exhibit 6 – miscellaneous fees and other charges
- ☐ Exhibit 7 – historical losses and DCCE (from the last diagonal of triangle), LDFs
- ☐ Exhibit 8 – loss trend factors, annual % trend
- ☐ Exhibit 9 – catastrophe load factor
- ☐ Exhibit 10 – credibility of data in recorded period, loss trend credibility
- ☐ Exhibit 11 – ancillary income

### ***Common Errors/Omissions***

*Check for any of the following errors or omissions:*

- ☐ Check that the on-level factors are calculated correctly in Exhibit 4, relative to the **seven**-year rate change history in Exhibit 2.
- ☐ Check that the on-level factors used to bring premiums to current level in Exhibit 5 are calculated correctly, relative to the **seven**-year rate change history in Exhibit 2.
- ☐ In Exhibit 4, show how the premium adjustment factors on Page 6, line 3 of the Rate Template **are derived** to bring premiums to the current rate level.
- ☐ Check that the trend period for premium in Exhibit 5 is the same as that for loss in Exhibit 8.

- ☐ Include frequency calculations on both of the required bases (reported claims and closed claims) in Exhibit 8.
- ☐ Include severity calculations on both of the required bases (paid and total paid including partial payments from prior years) in Exhibit 8.
- ☐ Provide DCCE, not ALAE, either separately, with losses, or as ratios to losses in Exhibit 7 (loss & DCCE development triangles).
- ☐ If applicable, include DCCE, not ALAE, with losses in Exhibit 8 (loss & DCCE trend).
- ☐ Include DCCE paid or incurred triangles in Exhibit 7 (Loss & DCCE development) regardless of how DCCE is developed (separately, with losses or as ratios to losses).
- ☐ If there is additional development in historical data prior to the ten years of data required in Exhibit 7 (Loss & DCCE development, annual triangles), provide this additional data in a supplemental exhibit.
- ☐ Include triangles for paid claim counts and reported claim counts in Exhibit 7.  
[Note: The Department considers “paid claim counts” to include counts for both open and closed claims with payment.]
- ☐ For Exhibit 7 (Loss & DCCE development), select the method of development, Paid or Incurred, in row 7 of the exhibit for each Coverage/Form/Program.
- ☐ For Private Passenger Auto and Homeowners lines of business, include accident year *incurred* claim counts as support for the credibility of the recorded period in Exhibit 10.  
[Note: The Department considers “incurred claim counts” to be “reported claim counts” less “counts for claims closed without payment”.]
- ☐ Check that the number of years used in Rate Template Page 6 (“Ratemaking Data” tabs) has been calculated in accordance with the credibility of the recorded period in Exhibit 10.
- ☐ Use the most recent Consolidated (*Combined*) Annual Statement for the *insurer group* of which the insurer applicant is a part to determine the projected yield and FIT.
- ☐ For Rate Template Page 4.1 (“Excluded Expenses” tab), use *countrywide* data for the *insurer group* of which the insurer applicant is a part for the direct earned premiums and direct advertising expenses.
- ☐ If no advertising is recorded as institutional, provide further explanation.
- ☐ Include samples or realistic representations of all advertisements considered to be *non-institutional* advertising expenses, as required by the Prior Approval Rate Filing Instructions.

- ☐ If requesting a variance for an increase in efficiency standard, illustrate in Exhibit 13 (Variance Request) that the increase requested does not result in an adjusted efficiency standard that exceeds the insurer applicant's most recent year's total expense ratio.  
[Note: Calculate the most recent year total expense ratio for the insurer(s) included in the filed application from the various expense and premium components reported in the insurer(s)' corresponding annual statement(s).]