

# The New Prior Approval Rate Application Process

## Frequently Asked Questions

- 1. We understand that a complete underwriting manual must be filed electronically in SERFF with each private passenger automobile rate filing, but do we have to file underwriting guidelines for other lines of insurance?**

**Answer:** Yes. A *complete* copy of underwriting guidelines must be submitted with *all rate filings*, regardless of the line of insurance. Underwriting guideline changes which have a rate impact must be submitted in a rule filing for prior approval. A complete rate filing should be submitted if the underwriting guideline changes have a substantial impact on rates.

The Department expects insurers to recognize those underwriting guideline changes which have a substantial impact on rates. For example, let's assume that a Homeowners insurer is using a rating plan which does not include rate differentials based on age of home. If the carrier decides to no longer write homes older than 50 years (because of adverse loss experience on those older homes), the Department expects the insurer to calculate an appropriate rate adjustment for the remaining book of business and submit a complete rate filing (which will include the underwriting rule change).

- 2. Can you give us guidance on the various acceptable data period scenarios with regard to the recorded period, the trend period, and the final evaluation date for the loss development triangles?**

**Answer:** Data in the recorded period must end no more than eight (8) months prior to the submission date of the filing. See the chart below:

Month Filing Submitted	8 Months Prior	Most Recent FY Ending Quarter	Most Recent FY Ending Quarter (in YYYYQ format)
Jan-2016	May-2015	Jun-2015	20152
Feb-2016	Jun-2015	Jun-2015	20152
Mar-2016	Jul-2015	Sep-2015	20153
Apr-2016	Aug-2015	Sep-2015	20153
May-2016	Sep-2015	Sep-2015	20153
Jun-2016	Oct-2015	Dec-2015	20154
Jul-2016	Nov-2015	Dec-2015	20154
Aug-2016	Dec-2015	Dec-2015	20154
Sep-2016	Jan-2016	Mar-2016	20161
Oct-2016	Feb-2016	Mar-2016	20161
Nov-2016	Mar-2016	Mar-2016	20161
Dec-2016	Apr-2016	Jun-2016	20162

The chart below provides additional examples of time periods acceptable for data in the recorded period, the trend exhibits and the (annual) loss development exhibits:

		Most Recent Fiscal Year of Data					
Ex	Recorded Period; Eval'd as of	Trend Data	Dev't Data	Eval'd as of (mos)	Acceptable to File?	Explanation	
1	20144 12 mos <sup>1</sup>	20144	20144	12	Yes	Data for recorded period, trend, and development are all consistent.	
2	20144 12 mos	20151	20144	12	Yes	Data for recorded period and development are consistent, trend data includes only one quarter past the end of the recorded period.	
3	20144 12 mos	20151	20144	15	No	Data for recorded period and development are inconsistent (number of months at which losses are evaluated don't match).	
4	20144 15 mos	20151	20144	15	Yes	Data for recorded period and development are consistent, data for development is evaluated at, and trend data is, only one quarter past recorded period.	
5	20144 18 mos	20144	20144	18	No	Data for recorded period, trend and development are all consistent, but development data is evaluated more than one quarter past recorded period.	
6	20151 12 mos	20151	20151	12	Yes	Same as Ex 1, except that a fiscal year is used.	
7	20151 12 mos	20152	20151	12	Yes	Same as Ex 2, except that a fiscal year is used.	
8	20151 12 mos	20152	20152	12	No	Data for recorded period and development are inconsistent (fiscal years don't match).	
9	20151 15 mos	20152	20151	15	Yes	Same as Ex 4, except that a fiscal year is used.	
10	20151 6 mos	20151	20151	6	No	Data for recorded period, trend and development are all consistent, but development data is evaluated as of less than 12 months.	

<sup>1</sup> Evaluation at 12 months facilitates reconciliation of data between exhibits.

**3. Why can't we see Pages 6, 7, and 8 of the Rate Template when we open it?**

**Answer:** A number of the Rate Template pages are hidden, and won't appear until the required information has been entered on the General Page (Page 1). For example, selecting one or more Detailed Line Descriptions from the pull-down menus on the General Page (Page 1) of the Rate Template will unhide Pages 6 and 7. For all templates, it is important to fill out the General Pages completely before attempting to fill out the remaining exhibits.

**4. We are a small carrier with limited volume of business in California. As a result, our California premium and loss trend data is sparse. Do we still have to submit our California trend data?**

**Answer:** Yes, California data is still required. Given your limited volume of business, you will also have to submit complementary trend data, or an alternate complement trend, if applicable, for all lines. In addition, for certain lines, you will have to file a variance request.

**5. Should we include claims closed without payment in our loss data for both the credibility and loss trend calculations?**

**Answer:** Although we prefer to work with claim count data without claims closed without payment, it's a decision we expect the filing insurer to make. Of course, we expect consistency in how the claim transactions are handled year-to-year.

**6. Do we have to submit the frequency and severity loss trend data for all four bases?**

**Answer:** Yes. CCR §2644.7 requires that insurers "submit the frequency and severity calculations on all bases..." That is, per the filing instructions for the Standard Exhibits Template Page 4 – Exhibit 8, the frequency trend shall be calculated using the (1) reported and (2) closed claims divided by exposures, and the severity trend shall be calculated on (1) paid losses on both open and closed claims divided by closed claims, and (2) total paid losses, including partial payments in previous calendar years, on closed claims divided by closed claims.

**7. With regard to the calculation of credibility for loss trend, what do you mean by the "selected single data period"?**

**Answer:** The "selected single data period" was intended to refer to the one period which corresponds to the number of points in both the selected loss and premium trend. Since credibility is not a concern for premium trend, we have revised the filing instructions to remove this ambiguity. As an example, for private passenger automobile, the standard for full credibility for loss trend is 6,000 total claims. Assuming that the insurer is using rolling four-quarter data to calculate loss trends, the 24-point loss trend's credibility will be based on the total claim count for the 27 calendar quarters. Similarly, the 12-point trend will be based on the total claim count for the 15 calendar quarters.

- 8. If we use fiscal years which do not end with December in the recorded period, the earned premium data will not reconcile with the data in Statutory Page 14. Do we still have to submit Application Page 5 – Reconciliation of Direct Earned Premium Data?**

**Answer:** Yes. We recognize that the earned premium data in the most recent fiscal year in the recorded period won't reconcile to Statutory Page 14 data, but the CDI still needs a reconciliation of the aggregate *calendar* year earned premium data for each program with the Statutory Page 14 earned premium.

- 9. We would like to add an electronic signature at the bottom of the General Page (Page 1), but the Prior Approval Rate Application Template appears to be protected. What should we do?**

**Answer:** The CDI is attempting to address this issue. In the interim, we suggest that you print the General Page, sign it, convert it to a PDF file, and submit it in SERFF along with the remaining pages of the Rate Application.

- 10. The Forms Page (Page 9) of the Prior Approval Rate Application Template has a button we can use when we have more than five forms. Unfortunately, the rows are added in the middle of the table, not at the bottom. Can this be fixed?**

**Answer:** This functionality is working as designed. The rows are added to the middle of the exhibit to preserve formatting. We will consider your concern as a future enhancement, if practicable. For now, we suggest that you determine how many rows you will need before you begin entering the forms.

- 11. In the past, the CDI has accepted the Forms portion of the Rate Application as a separate attachment, as long as the required information was provided in the same format. Will you continue to allow us to file separate attachments?**

**Answer:** No. For purposes of consistency, we are requiring that all insurers use the new Rate Application.

- 12. In our recent PPA filings, for DCCE calculations, we have been using two triangles (one each for Liability and Physical Damage). With the new Templates, will this approach be acceptable, or do we need to submit triangles at the individual coverage level (BI, PDL, etc.)?**

**Answer:** For DCCE calculations, the approach which you outlined will still be acceptable.

- 13. In Exhibit 5 and Exhibit 8 of the Standards Exhibits Template, the insurer is asked to justify the trend period for premium and loss trends in the Filing Memorandum. Isn't this calculation fairly standard? Why are insurers being asked to do this?**

**Answer:** The end of the trend period relies on assumptions such as the insurer's policy terms and the timing of claims. Since some insurers have books of business with multiple policy terms,

and others write lines with seasonality in the timing of claims, the calculation is not always standard. As a result, the CDI requires documentation of the trend periods being used.

**14. Should we use the new Prior Approval Rate Application for Workers Compensation rate filings?**

**Answer:** No. Workers Compensation is not subject to prior approval in California. A separate application is available on the CDI website at <http://www.insurance.ca.gov/0250-insurers/0800-rate-filings/rate-filing-applications.cfm>.

**15. Given the new data period requirements, can we use stub periods (accounting periods of less than one year) in the new Rate Template?**

**Answer:** No. The fiscal years in the recorded period must contain 12 months of data.

**16. Because of our limited amount of trend data, the new Standard Exhibits which we are generating contain errors. Should we still file them?**

**Answer:** The CDI recognizes that insurers with limited data will produce exhibits containing errors. The Standard Exhibits for trend and loss development should still be filed. Variances are available for trend and loss development when there is insufficient data to calculate trend factors or LDF factors.

**17. Sometimes when we save the Application and Template files and re-open them later, we find that some of the macro buttons and check boxes have either moved elsewhere on the exhibit, or resized, or both. Can this be fixed?**

**Answer:** We recognize this issue as one that existed in both the prior and new Application and Template versions. The issue appears to be an intermittent one, perhaps related to a software issue. We are working to find a resolution. Until that time, we suggest starting fresh with a new Application and/or Template and cutting and pasting your data into those new templates.

**18. How do we file a rate change for an existing program, for which we have only minimal or sparse data?**

**Answer:** For an existing program with minimal data, a complete Prior Approval Rate Application (“Application”) with full rate support must be submitted, along with a Variance Request for trend and loss development, as applicable, to supplement the data. The Variance Request must be documented in Page 11 of the Application, and an alternative source for loss development and trend, with full justification for that source must be documented in Exhibit 13. All California-specific data available for that program must be submitted via the Standard Exhibits Template. For more information on Variance Requests, refer to the Prior Approval Rate Filing Instructions, Section VI – Application Page 11.

**19. How do we file a rate change for a program previously approved as a new program, and for which we have no written premium?**

**Answer:** For an existing program with no written premium, a complete Prior Approval Rate Application (“Application”) must be submitted. On the “1. General” page of the Prior Approval Rate Template ‘New Program’ should be selected, which will allow the insurer to enter new program projections to recognize that the existing program does not have any experience data as of the filing date. The insurer should state clearly in their Filing Memorandum that the Application is being submitted for an existing program with no premium data and on the “1.General” page of the Application the most recent applicable CDI file # for this program should be provided. For information applicable to an existing program with no premium written, refer to the New Program section of the Prior Approval Rate Filing Instructions, Section III.C.

Note: This document will be updated as additional frequently asked questions arise.