

## Financial Services Commission of Ontario

### ***Technical Notes for Automobile Insurance Rate and Risk Classification Filings***

#### A. Introduction

All insurers writing non-fleet automobile insurance on Ontario Automobile Policy (OAP) 1 or OAP 2 must have their rates and risk classification systems approved or authorized by the Financial Services Commission of Ontario (FSCO). The *Technical Notes* are for assisting insurers in preparing their filings. Also, **bolded and underlined** sections of the *Technical Notes* should be viewed as critical issues that insurers should adhere to when submitting filings.

There are five different Rate and Risk Classification *Filing Guidelines* depending upon the types of changes proposed.

1. ***Private Passenger Automobile Filing Guidelines – Major***: to be used when a company is initially entering the private passenger automobile insurance market, or is changing existing automobile insurance rates but the changes proposed do not meet the criteria for Simplified Filing Guidelines. Where rates for other categories of automobile insurance are dependent on the private passenger automobile rates (e.g. motorhome rates are dependent on private passenger rates), they should be included within the filing. **These filing guidelines are to be used by the Facility Association for all categories.**
2. ***Private Passenger Automobile Filing Guidelines- Simplified***: to be used when the company is filing for changes to private passenger automobile insurance rates or risk classification systems and the changes proposed meet the criteria as set out in Exhibit 1 of the *Technical Notes*. Where rates for other categories of automobile insurance are dependent on the private passenger automobile rates (e.g., motorhome rates are dependent on private passenger rates), they should be included within the Simplified filing.
3. ***Private Passenger Automobile Filing Guidelines – CLEAR Simplified***: to be used to implement the current year CLEAR vehicle rate group (VRG) table.
4. ***Other Than Private Passenger Filing Guidelines - Major***: to be used when a company is initially entering the insurance market for a category other than private passenger automobile insurance or when changes proposed meet the criteria set out in **Exhibit 3 of the Technical Notes** or when requested by FSCO to use it. Where rates for a category of automobile insurance are dependent on the rates of another category (e.g. public vehicle rates are dependent on commercial vehicle rates), they should be included within the filing.
5. ***Other than Private Passenger Filing Guidelines - Minor***: to be used when the company is filing for changes to automobile insurance rates or risk classification systems for other than the private passenger (e.g. company is filing for motorcycle rates). Where rates for a category of automobile insurance are dependent on the rates of another category (e.g., public vehicle rates are dependent on commercial vehicles rates), they should be included within the filing.

When proposing rate or risk classification changes, insurers should also have regard to Superintendent's bulletins that may be issued from time to time. Bulletins are listed on FSCO's website at: [www.fSCO.gov.on.ca](http://www.fSCO.gov.on.ca).

## B. Requirement to File

The requirement to file rate and risk classification changes includes the following:

1. where an insurer is proposing to use Insurers' Advisory Organization (IAO) advisory rates;
2. where an insurer is updating vehicle rate groups (refer to E9. Rate Group Drift and E17. Vehicle rate group changes in the *Technical Notes*);
3. where an insurer is changing rates for categories of automobile insurance that are dependent on another category of automobile insurance (e.g., public vehicle rates that are dependent on commercial vehicle rates).

If an insurer uses rates or risk classification systems that are not approved or authorized by the Superintendent, it may be subject to regulatory action by FSCO.

## C. Filing Documentation

In general, documentation should be in sufficient detail to enable the reviewer to trace the resulting rates from the raw data experience and other supporting data. If market analysis information is used by the insurer in developing the proposed changes, this information must be provided within the filing. For more specific details please refer to the appropriate *Filing Guidelines*. **Failure to provide documentation, as outlined in the *Filing Guidelines*, will result in the filing being deemed incomplete, and delay review and approval of the filing.**

## D. Reviewing Rate Adequacy

Insurers should regularly review the adequacy of rates for **all** categories of automobile insurance so that consumers are less likely to experience large rate changes.

The legislation requires that all risk classification systems be just and reasonable, reasonably predictive of risk, and distinguish fairly between risks. Also, under legislation, rates must be just and reasonable, not impair the solvency of the insurer, and not be excessive in relation to the financial circumstances of the insurer.

## E. Major Filings

Outlined below are specific components to take into consideration when preparing your rate filing where full rate level indications are required.

### 1. Loss Data

- a) The insurer's own current direct (i.e., prior to reinsurance transactions) loss data should be provided, otherwise the filing will be deemed incomplete.
- b) The insurer's own loss data should be used to the extent that it is credible.
- c) Loss data must be Ontario specific for the filed category of insurance at the coverage level. Valuation data for loss reserving purposes may not satisfy this requirement.
- d) Data at the major sub-coverage level is generally required for estimating ultimate costs. Aggregation will be required to estimate the required change in premiums.

Loss experience should be subdivided into homogenous groups at the major sub-coverage level as follows:

TPL - bodily injury  
TPL - property damage  
TPL - direct compensation - property damage

AB - medical  
AB - rehabilitation - renovation  
AB - rehabilitation - other  
AB - caregiver  
AB - income replacement  
AB - attendant care  
AB - funeral and death  
AB - other

Uninsured automobile

Collision

Comprehensive

All perils

Specified perils

Underinsured motorist (OPCF 44R)

- e) For each coverage and major sub-coverage listed above, payment patterns should be developed for discounting purposes.
- f) The filing should use the most recent ratemaking 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 (**e.g., assuming that industry data for the 2008 accident year is released in May 2009, any filing received by FSCO after that date should include 2008 accident year data**). Accident half-year loss development data on an industry-wide basis is generally available in early November.
- g) **Company automobile experience under the Superintendent's Automobile Statistical Plan (ASP) is generally considered to be appropriate for ratemaking purposes. Companies that rely on alternative data sources should be able to reconcile closely with the AIX loss ratio and loss development company data reported under the ASP. Such companies may be required to provide a copy of the AIX data to demonstrate that the ratemaking data is reasonably accurate to support rate changes. If the data does not reconcile closely to the AIX, explanations will be necessary. This may delay the filing review process.**

## 2. Indicated Rate Changes and Proposed Rate Changes

- a) The indicated rate change should be based on at least three consecutive years of actual experience.
- b) Proposed rate changes should be in the same direction as the indicated rate change direction at the coverage level. For example, if the indicated rate change for TPL-BI is positive and the indicated rate change for AB is negative, we expect that the proposed rates for TPL-BI should increase and the proposed rates for AB should decrease, even though both TPL and AB are compulsory coverages.
- c) Significant differences at the coverage level between the indicated and proposed rate

changes should be explained.

- d) The data included in the experience period should be readily reconcilable with information provided in Appendix A of the *Filing Guidelines*.
- e) It should be readily apparent how the investment income assumptions have been reflected in the calculation of the indicated rate change.
- f) Both indicated and proposed rate changes should take into consideration the changes to coverages resulting from automobile insurance reforms.
- g) Rationale and other considerations in support of the proposed rate changes should be provided.
- h) **Insurers should regularly review their indicated rate levels and current rate levels for all categories of automobile insurance.**

### 3. Credibility

- a) Credibility standards and the complement of credibility should be consistent from one filing to the next. Changes in either the standards or the complement of credibility must be outlined and justified.
- b) Credibility standards should also be reasonable in the circumstances. The purpose of credibility weighting is to provide a balance between stability and responsiveness of an estimate. Standards that are too low may cause significant instability in the indicated rates. Those that are too high may reduce responsiveness of a rate change.
- c) A commonly used standard of 1,082 claims for short tail, low severity coverages, such as property damage and physical damage, is considered reasonable. The use of a higher standard in long-tail, high severity coverages in the form of a multiplier of the base standard, is considered reasonable.
- d) **Due to the nature of Bodily Injury claims, the BI claim count should not be combined with the PD claim count to assess the credibility component of the TPL experience data.**
- e) **If prior filing indications are utilized in the credibility complement and significant differences have been communicated to the company regarding the indications, consideration should be given to adjusting the prior indication for these differences before utilizing it in the current credibility complement.**
- f) **If an alternative body of data experience is used as a credibility complement, exhibits should be included to show the adjustments made to this data for risk distribution differences.**

### 4. Loss Development

- a) The insurer should not solely use industry factors, unless the insurer can support why those factors are more appropriate than basing loss development on its own data.
- b) If loss development for a partial accident year is used, then comparable experience at the same level of maturity should be provided to support the selected loss development factors.

## 5. Automobile Insurance Reform Mapping Factor

The filing should clearly indicate how loss experience has been adjusted to reflect auto insurance reforms. To assist insurers, benchmark assumptions regarding automobile insurance reforms are included in **Exhibit 2**.

## 6. Loss Trend

- a) Loss trends are usually based on industry-wide experience. Loss trends based on the company's own experience may also be useful in better understanding the dynamics of the company's business.
- b) Selected loss trend assumptions should be supported with an analysis of the indicated loss cost changes using an appropriate loss trend methodology. Loss trend assumptions that do not follow the indicated loss trends should be rationalised and explained.
- c) Prospective loss trends should reflect the expected changes in loss costs in the future period. To assist insurers, ranges of future loss trend factors are in **Exhibit 2**. These ranges of future loss trend factors are the result of FSCO's loss trend analysis based on the recent industry data as well as a review of assumptions used in recent rate filings and are provided for reference purposes only.
- d) Loss cost trends are generally sufficient. However, frequency and severity trends are often reviewed and analysed separately in the selection of trend factors.

## 7. Treatment of Large Losses

- a) The filing should clearly indicate how large losses in the experience period have been handled. If losses have been capped, a description of the large loss procedure and the effects of the caps must be demonstrated.
- b) A long period should be used in estimating the large loss provision to minimize statistical variations over years.
- c) Each company should ensure that large losses do not cause significant instability in the company's rates from one period to the next.

## 8. Catastrophe Provision

- a) A catastrophe procedure is used to remove aberrations in the underlying loss data caused by infrequently occurring, multi-claim, weather-related events.
- b) In the past we have considered a 2% loading on comprehensive coverage, the comprehensive portion of all perils coverage, and specified perils coverage, as a reasonable catastrophe provision.

## 9. Rate Group Drift

- a) The gradual shift in the distribution of business to newer and more expensive cars results in increases in physical damage premiums. This should be explicitly reflected in deriving rate level indications. Otherwise, rate indications for direct compensation - property damage and physical damage coverages will be overstated.
- b) **The annual industry average changes in rate group differentials are determined and published by the Insurance Bureau of Canada (IBC). Insurers are still required to provide their rate group distributions to support the selected rate group drifts.**

- c) The rate group drift must be taken into consideration annually.

#### 10. On-Level Premium

- a) All premiums by coverage and territory used in the filing should be adjusted for previous rate changes.
- b) **If the extension of exposures method is used for determining the on-level premium, documentation must be provided to demonstrate how it compares to the parallelogram method.**

#### 11. Profit Allowance - Investment Return on Equity, Premium to Equity Ratios and Return on Equity and Income Tax Rates

- a) The profit allowance referred to in this section is calculated based on the investment return on equity (ROI) , premium to equity ratio (P/E) and after tax return on equity (ROE), as follows:  
$$= \{[ROE / (1 - \text{income tax rate})] - ROI\} / (P/E)$$
- b) While expected investment returns should reflect new money rates, we anticipate that the expected investment return will be close to the actual investment return the insurer earned within the recent past. Significant differences must be explained and justified.
- c) A premium to equity ratio of 2:1 is fairly standard on a combined coverage basis. Some insurers may decide to obtain leverage ratios at the coverage level.
- d) The after tax return on equity underlying the indicated rate level should reflect the current economic environment as well as the company's leverage ratio. FSCO is unlikely to approve any filing that proposes a rate change that results in a negative return on equity.
- e) Insurers should reflect the tax rates expected to be effective for the period of the proposed rates. Refer to **Exhibit 2** for the corporate tax rate in Ontario.

#### 12. Investment Return on Cash Flow

- a) The rationale for assumptions should be made based on the current economic environment.
- b) While expected investment returns should reflect new money rates, we anticipate that the expected investment return will be close to the actual investment return the insurer earned within the recent past. Significant differences must be explained and justified.
- c) The investment return from the cash flow should be included in the rate level indication.

#### 13. Investment Returns - General

- a) The rationale for assumptions should be made based on the current economic environment, and be close to the actual investment return the insurer earned within the recent past as well as reflect new money rates.
- b) While the expected investment yield rate on *cash-flow* and expected investment yield rate on *equity* may be different, we anticipate the combined expected investment return from the cash-flow and equity will be close to the actual investment return the insurer earned within the recent past as well as reflect new money rates. Significant differences must be explained and justified.

#### 14. Expenses

- a) Some general expenses may vary as a function of premiums or exposures, while others, such as salaries and rent, may follow inflation or other economic conditions.
- b) A reasonable approach is to treat commissions and premium taxes as premium variable expenses and treat all other expenses as fixed expenses. Some companies may, through additional analysis, use a three-way split, which we have also found to be reasonable. Fixed expenses should normally be allocated to compulsory coverages.
- c) FSCO is unlikely to approve any filing that will pass through to consumers an expense provision, excluding unallocated loss adjustment expenses (ULAE) and excluding allocated loss adjustment expenses (ALAE), that is significantly higher than the industry average expense provision set out in **Exhibit 2**.
- d) It is FSCO's stated position that any profit or loss effects from the residual market cannot be included as an element of general expenses. This is explained in the *Filing Guidelines*.
- e) 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.

#### 15. Finance Fees/Charges

Finance fees or charges collected through premium instalment plans should be included in premiums. Premium payment pattern may be adjusted for policies with premium instalment plans.

#### 16. Predictive Models

- a) In a General Linear Modelling (GLM) approach, the model results should be summarized to include the earned exposures, number of claims, indicated loss costs or loss ratios, indicated relativities and re-balanced relativities.
- b) Raw data results summarized on a one-dimension basis for the proposed classification variables should be readily available for review when requested.
- c) Regression statistics such as the R-square, T-values, degree of freedom, correlation coefficient and standard of errors should be included to illustrate the statistical significance of the proposed variables.
- d) Credibility of data and use of a credibility standard in the calculation of indicated relativities should be shown.

#### 17. Territorial, Class, Driving Record and Other Differential Changes

- a) In order to ensure rate equity and minimize rate dislocation, insurers should cap differential changes at +/- 10% from the current differential in the direction of the coverage indication.
- b) Overall dislocation should be carefully reviewed by the insurer.

## 18. Introduction of New Discounts/Surcharges or Differentials

- a) Insurers may have innovations in pricing auto insurance through the introduction of new discounts/surcharges and differentials. Data should be provided in support of a new discount/surcharge or differential. FSCO will consider non Ontario data, provided it is credible and relevant to the current Ontario product.
- b) If an insurer is proposing to adopt a discount/surcharge or differential that is in use by other auto insurers in Ontario, it must provide the supporting information, i.e., the names of the insurers and the level of the discount/surcharge or differential, within the filing.
- c) Insurers must collect data and, once sufficient data has been gathered, be prepared to amend the discount/surcharge or differentials accordingly.

## 19. Vehicle Rate Group Changes

- a) An insurer may use the Major or Simplified Filing Guidelines if changes to Private Passenger vehicle rate group differentials are being proposed.
- b) Even if an insurer is simply updating the annual CLEAR vehicle rate group tables, the rate group drift must be taken into account.

## 20. Tax Rates

- a) Insurers should reflect the corporate tax rates expected to be effective for the period of the proposed rates. **Refer to Exhibit 2 for corporate tax rate in Ontario.**
- b) Changes in tax rates, such as the GST reduction, could have an impact on the expected loss costs and required further adjustments in the rate level calculations.

## 21. Territorial Definition Changes

If insurers are proposing to make territorial definition changes, the insurer must demonstrate that all conditions of Bulletin No. A-01/05 regarding territories are met. For example, maps outlining the current and proposed territories and exposure distributions must be provided.

## 22. Dislocation and Capping Premium Increases (Rate Capping)

Insurers should take into consideration the impact that proposed rate changes will have on consumers. Information on rate dislocation is required in Appendix A. Any proposed capping procedure should be fully described in this section.

While capping is usually done at the differential level, capping at the total premium level is permitted only under the limited circumstances outlined below. Capping premium increases (positive capping) will be considered for approval by FSCO in minimizing dislocation under the following circumstances:

- a) Insurance Company Mergers and Acquisitions: Due to the potential complexity of such situations, insurers will be required to develop a plan to phase out positive capping (if it is proposed) within a two-year time period;
- b) Extensive Risk Classification System Changes: When insurers are introducing new variables or unbundling existing ones that create, for example, a situation in which more than 20% of their customers see an increase of more than 20%, positive capping may be considered for a period of two-years or less (i.e. from the effective date of the approved rate filing for renewal business).

- c) Insurers may continue to submit rate filings during this period; however, no new positive capping will be considered for approval by FSCO unless the positive capping from the previously approved filing has been exhausted.

Requirements:

- a) Insurers must provide the “uncapped” overall proposed rate level change along with the “capped” overall proposed rate level change in a rate filing where positive capping is proposed;
- b) Insurers are required to track all policies where positive capping has been applied and the reason. Insurers are also required to track all policies on which the positive cap has not been applied where the premium increase exceeds the cap. This information must be tracked by the Insurer on a semi-annual basis and made available to FSCO upon request;
- c) The capped overall rate level change will be published on the FSCO website for quarterly approvals when rates are initially capped. The insurer is required to submit an annual filing to FSCO (in addition to any other filings that are submitted) that will account for the impact of the cap in subsequent years until the cap is exhausted. No other changes are to be included in this annual filing. FSCO’s quarterly approval numbers will reflect the impact of the cap in subsequent years.

Capping will not be permitted under the following circumstances:

- a) Base rate changes only;
- b) Broker portfolio transfers or acquisitions;
- c) Premium decreases (negative capping).

### 23. Rate Manual Pages

A draft set of manual pages containing proposed rating rule changes or definition changes must be provided in the filing. A draft set of rate manual pages that contain the rates by territory and class, driving record, etc is optional at the time of submitting the filing.

Any changes or additions to the rating rules, definitions or text in the proposed rate manual, should be denoted by a side bar (|).

**A final set of manual pages in electronic format (e-mail or cd), containing the approved rates and risk classification system must be submitted within 30 days after the rate filing has been approved, in accordance with the *Rate Manual Filing Guidelines*. The electronic copy of the rate manual submitted to FSCO must be identical to any hard copy or versions that are being distributed to anyone, including brokers, agents or other vendors. Failure to submit a rate manual filing can be treated as a compliance matter and the insurer may be subject to further regulatory action by FSCO. The insurer must also provide a copy of the most current vehicle rate group tables if they have not already been filed with FSCO.**

### F. Rate Filing Checklist for Major Filings

In order to further assist companies when preparing their filings, attached as Exhibit 4, is a checklist that companies can use prior to submission of a Major filing. By using this checklist, it may ensure that the filing is complete and the documents required in the filing are included.

## **CRITERIA FOR SIMPLIFIED FILINGS**

The following criteria must be met for an insurer to be able to use the Simplified Filing process. Please note that this information is updated annually so please ensure you have the most current criteria.

1. On an all coverages combined basis, the proposed rate level change must be equal to or less than 0.0%.
2. Any territorial base rate change must be between -10.0% to 0.0%.
3. Any other changes to differentials or risk classification elements must be between -10.0% to +0.0%, with no off-balancing.
4. Changes to existing risk classification elements (includes discounts/surcharges, rating variables and rules) are permitted as long as the impact of such changes is a reduction in the resulting rate to the consumer.
5. No changes to the rating algorithm are permitted.

## BENCHMARK ASSUMPTIONS FOR PRIVATE PASSENGER AUTOMOBILE INSURANCE FILINGS FOR REFERENCE PURPOSES

The following benchmark assumptions are being provided to assist with the development of rate level indications. Please note that this information is updated on a regular basis.

### 1. Loss Trend

Prospective loss trends should reflect the expected changes in loss costs in the future period. The following ranges of loss trends are generally considered to be reasonable by FSCO. The trend ranges are based on a review of the GISA Statistical Plan AIX private passenger auto insurance data as of **June 30, 2008**.

Coverage	Prospective Loss Trend Ranges (June 30, 2008+)
Third Party Liability - Bodily Injury	3.5% to 4.1%
Third Party Liability - Direct Compensation Property Damage and PD-Tort	2.1% to 3.2%
<b>Third Party Liability – Total</b>	<b>3.0% to 3.8%</b>
Accident Benefits	10.4% to 12.1%
Uninsured Automobile	0.7% to 2.7%
Underinsured Motorists (OPCF 44R)	1.7% to 4.0%
Collision or Upset	1.8% to 2.9%
Comprehensive	-1.0% to 0.5%
Specified Perils	-1.8% to 1.3%
All Perils	1.2% to 2.4%

It should be noted that the above loss trend ranges are provided for reference only.

### 2. Return on Equity

The return on equity underlying the indicated rate level should reflect the current economic environment as well as the company's leverage ratio. A 12% after-tax return on equity was established in the 1996 *Technical Notes* by FSCO as a reasonable target for most companies.

### 3. Expense Provision

FSCO is unlikely to approve any filing that will pass through to consumers with an expense provision that is significantly higher than the industry average. **The industry average expense, excluding loss adjustment expense, is approximately 26% of earned premiums for the automobile insurance line in Ontario.** FSCO will consider the type of distribution channel that a company uses to assess an appropriate expense provision.

4. Automobile Insurance Reform Adjustment Factors

The following automobile insurance reform adjustment factors can be adopted to reflect the impact of Bill 5/Bill 198 reforms on loss costs:

<b>Coverage</b>	<b>Adjusted Reform Impact</b>
Third Party Liability - Bodily Injury	-14.2%
Third Party Liability - Direct Compensation Property Damage and PD-Tort	-5.3%
Accident Benefits	-30.2%
Collision or Upset	-8.3%
Comprehensive	-13.8%
Specified Perils	-6.1%
All Perils	-10.7%

It is to be noted that the above impact factors are provided for reference only. If insurers use alternative factors, support should be provided.

5. Ontario Corporate Tax Rates

Effective January 1, 2009, the corporate tax rate is 33.0% in Ontario, and is expected to decrease further to 32.0% in 2010. The appropriate tax rates should be used for the policy effective period.

**OTHER THAN PRIVATE PASSENGER AUTOMOBILE FILINGS - MAJOR AND MINOR FILINGS**

A “major” filing for a particular category of automobile insurance, other than Private Passenger Filings, needs to be submitted where:

- the insurer’s annual direct written premiums meet or exceed the level specified below **AND** the Average Cumulative Rate Change for the filed category is 10% or more (the Average Cumulative Rate Change is calculated in accordance with the instructions in Section 2 of the *Filing Guidelines* and is to be provided in response to Question 5b of Appendix A);

or

- the insurer is filing for a category of automobile insurance that was not previously written by the insurer;

or

- the insurer is requested by FSCO to submit a major filing;

or

- the insurer has not filed for this category in the last 3 years and a rate change of 10% or more is proposed.

For major filings, full actuarial documentation must be provided. For minor filings, only summary information is required.

The annual direct written premium levels vary by category as follows:

**Categories**

	<b><u>Level</u></b>
Personal Vehicles - Motorcycles	\$2,000,000
Personal Vehicles - Motorized Snow Vehicles	\$2,000,000
Personal Vehicles - Off-Road Vehicles	\$2,000,000
Personal Vehicles - Motorhomes	\$2,000,000
Personal Vehicles - Historic Vehicles	\$2,000,000
Commercial Vehicles	\$15,000,000
Public Vehicles	\$2,000,000

**Notes:**

- (1) The insurer’s annual direct written premiums for the **latest** complete calendar year should be used in applying the levels noted above.
- (2) Fleet premiums are to be excluded in applying the levels noted above.

## RATE FILING CHECKLIST FOR MAJOR FILINGS

- Notes:** (1) *The main focus of this checklist is to highlight the most common issues we have encountered in the past while reviewing filings and is not intended to be a comprehensive checklist. You should refer to the Filing Guidelines and Technical Notes for more details.*
- (2) *In general, the documentation should be in sufficient detail to enable the reviewer to trace the resulting rates from the raw data experience and other supporting data.*

### Section 1. Table of Contents

- Is a table of contents included?
- Is each section of the filing labelled according to the guidelines and made reference to by page number?

### Section 2. Summary of Information (Appendix A)

- Is a duly completed Summary of Information (Appendix A) provided?

### Section 3. Certificates

- 3a. Is a Certificate of the Officer/Designate (Appendix B1) included?
- 3b. Is a Certificate of the Actuary (Appendix B2) included? (n/a for fees only filings)

### Section 4. Actuarial Support

- Are all pages labelled/numbered according to the guidelines?
- 4.a. Is an Overall Description of Ratemaking Methodology and Summary provided?
- 4.b. Losses
  - Is the source of data identified?
  - If company data (exposure, premium, claims and losses) as reported to the Automobile Statistical Plan (ASP) was used in the rate filing, are there any data quality problems which significantly affect interpretation of the statistical plan experience?
  - If company data (exposure, premium, claims and losses) as reported to ASP was not used, does the ratemaking data reconcile closely with the data reported to ASP, and any differences explained?
  - Are all of the data reported on Appendix A, pages A4 & A5 in respect of the two most recent accident years and reconciled against the ratemaking data, and any differences explained?
  - Are direct losses (prior to any reinsurance transactions) used?
    - 4.b.1 Loss Development
      - Are the company loss development triangles provided?
      - Is the rationale for the selected loss development factors provided?
    - 4.b.2 Loss Trends
      - Is the source of data identified?
      - Is the support and rationale for the selected loss trends provided?

## RATE FILING CHECKLIST FOR MAJOR FILINGS

- 4.b.3 Treatment of Large Losses  
 If any special treatment of large losses in the overall and/or territorial rate calculations are used, is a full description and rationale provided?
- 4.b.4 Catastrophe (or Excess Claim) Procedure  
 If an explicit catastrophe procedure is used, is a full description and rationale provided?
- 4.b.5 Auto Reforms Adjustment  
 Have adjustments to losses been made for all recent auto insurance reforms?
- 4.b.6 Other Adjustments  
 If any other adjustments are made to the loss data, is a full description and support provided?  
 What is the source of data?
- 4.c. Allocated Loss Adjustment Expenses (ALAE) - *if applicable*  
 Is the source of data identified?  
 If company data as reported to IBC was not used, does the ALAE data used reconcile closely with the data reported to IBC, and any differences explained?  
 Are direct ALAE amounts (prior to any reinsurance transactions) used?
- 4.c.1 ALAE Development  
 Is the company ALAE development triangle provided?  
 Is the rationale for the selected ALAE development factors provided?
- 4.c.2 ALAE Trends  
 Is the source of data identified?  
 Is the support and rationale for the selected ALAE trends provided?
- 4.c.3 Catastrophe (or Excess Claim) Procedure  
 If an explicit catastrophe procedure is used, is a full description and rationale provided?
- 4.c.4 Other Adjustments  
 If any other adjustments are made to the ALAE data, is a full description and support provided?
- 4.d. Unallocated Loss Adjustment Expenses (ULAE)  
 Is a complete description and all supporting data and exhibits included?
- 4.e. Premium  
 Is the source of data identified?  
 Are direct premium (prior to any reinsurance transactions) used?
- 4.e.1 On-Level Adjustments  
 Is the approach described?  
 If the parallelogram method is used, are the calculations disclosed?  
 If the "extension of exposures" method is used, is a comparison with the "parallelogram method" provided and significant differences explained?  
 Is history of rate changes for each coverage for the prior five years provided?

## RATE FILING CHECKLIST FOR MAJOR FILINGS

- 4.e.2 Premium Trend
- Is the source of data underlying premium trend calculations identified?
  - If company exposure distributions by rate group are used, are the distributions at applicable time periods provided?
- 4.e.3 Other Adjustments
- If any other adjustments are made to the premium, is a full description and support provided?
- 4.f. Other Expenses
- Is the allocation of the expenses between exposure variable (fixed) and premium variable (variable) provided?
  - Is the most recent company expense experience provided?
- 4.g. Profit Provisions
- Is sufficient detail for the determination of the expected rate of return on policyholder supplied funds and equity funds provided?
  - Is sufficient detail for the determination of the target and proposed profit margins provided?
  - Are the pay-out patterns by coverage provided?
  - Is an appropriate tax rate included?
- 4.h. Credibility
- Is the credibility standard and the partial credibility formula provided?
  - If a credibility complement is used, is a description of the approach, data source and details of all necessary adjustments provided?
- 4.i. Other Adjustments
- If any other adjustments are made that will affect the expected premium or losses, is the effect quantified and their effects disclosed and supported?
- 4.j. Summary Rate Level Indications
- Have summary sheets showing how the data combines with the adjustments and provisions outlined in subsections (4.b.) to (4.i.) been provided?
  - If experience weights are different from the previous major filing, are the changes disclosed, and the rationale provided?
- 4.k. Territorial Indication - ***if applicable***
- 4.k.1 Indicated Differentials
- Is a detailed description of the approach provided?
  - Is the source of data identified?
  - Is a comparison of current, indicated and proposed territorial differentials provided?
  - Is the premium distribution and exposure distribution by territory and by coverage provided?

## RATE FILING CHECKLIST FOR MAJOR FILINGS

- 4.k.2 Off-Balance
  - If the proposed territorial changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
  - If the proposed territorial changes are not off-balanced, are subsections (4.a.) - (4.j.) completed?
- 4.k.3 Definitions
  - If changes to territorial definitions are being proposed, are maps showing current and proposed territorial boundaries included?
- 4.l. Implementation of CLEAR System Differentials - ***if applicable***
  - 4.l.1 Overall Description for Implementing CLEAR
    - Is the approach for implementing CLEAR described?
    - If any capping procedures are used, are all details provided?
    - Is a list of the capped vehicles provided?
  - 4.l.2 Off-Balance
    - If the proposed CLEAR changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
    - If the proposed CLEAR changes are not off-balanced, are subsections (4.a.) - (4.j.) completed ?
- 4.m. Classification/Limit of Liability/Deductible or Other Rate Differential Indications - ***if applicable***
  - 4.m.1 Indicated Differentials
    - Is a detailed description of the approach provided?
    - Is the source of data identified?
    - Is a comparison of current, indicated and proposed differentials provided and compliance to the 'rate equity and minimization of rate dislocation' requirement in the *Technical Notes* demonstrated?
    - Is the premium distribution and exposure distribution by class etc., and by coverage provided?
  - 4.m.2 Off-Balance
    - If the proposed changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
    - If the proposed changes are not off-balanced, are subsections (4.a.) - (4.j.) completed?
- 4.n. Rating Based on Group Membership - ***if applicable***
  - 4.n.1 Indicated Discounts or rates
    - Is a detailed description of the approach provided?
    - Is the source of data identified?
    - Is a comparison of current, indicated and proposed discount provided and compliance to the rate equity and minimization of rate dislocation requirement in the *Technical Notes* demonstrated?
    - Is the premium distribution and exposure distribution provided?

## RATE FILING CHECKLIST FOR MAJOR FILINGS

### 4.n.2 Off-Balance

- If the proposed changes are being off-balanced, is the data used in the process of calculating the off-balance and all calculations provided?
- If the proposed changes are not off-balanced, are subsections (4.a.) - (4.j.) completed?

### Section 5. Discount/Surcharge Changes - *If applicable*

- Is a detailed description of the approach provided?
- Is the source of data identified?
- Has a comparison of the indicated, current and proposed discounts or surcharges been included?
- Has the written premium and the exposure distribution of the discounts and surcharges been included?
- Has the current and proposed distribution that determines the premium shift or a calculation of the estimated impact been included?

### Section 6. Rating Rule Changes - *If applicable*

- 6.a. Rating Rule Changes for Classification Differentials
- Is a description of the proposed changes provided?
  - Is a rationale for the proposed changes provided?
  - Are the rate level effects of the proposed changes provided?
  - Are calculations that validate the rate level effect of the proposed changes based on the expected distribution of business provided?
- 6.b. Rating Rule Changes for Discounts and Surcharges
- Is a description of the proposed changes provided?
  - Is a rationale for the proposed changes provided?
  - Are the rate level effects of the proposed changes provided?

### Section 7. Final Rates

- 7.a.  Current and proposed algorithms included?
- 7.b.  Current and proposed base rates included?
- 7.c.  Current and proposed differentials included?
- 7.d.  Current and proposed discounts and surcharges included?
- Have exhibits been provided that clearly describe how the current manual territorial premium are transformed into proposed manual territorial base premiums through the application of the proposed rate change in combination with any off-balance?
- 7e. Calculation of Final Rates
- Have exhibits been provided that clearly describe how the current manual territorial premium are transformed into proposed manual territorial base premiums through the application of the proposed rate change in combination with any off-balance?
- 7.f. Calculation of Rate Level Change
- Have exhibits been provided that clearly describe how the rate level impact of the changes are determined for each coverage?

## RATE FILING CHECKLIST FOR MAJOR FILINGS

- 7.g. Dislocation and Capping - *if applicable*
- Is a complete description of the capping procedures included?
  - Has a summary of the dislocation been provided?

### Section 8. Dependent Categories - *if applicable*

- Have calculations that validate the rate level effect of the proposed changes for the dependent categories been included?
- Has a copy of the rating rule that stipulates the linkage to category of automobile insurance been included?
- Has Section 10, risk profiles and risk criteria for the dependent categories been completed?

### Section 9. Manual Pages Containing Revised Rates and Risk Classification System

- Has a draft set of manual pages containing all proposed rating rule changes and definition changes been included?
- Have the manual rate pages been included?

### Section 10. Rating Examples (Appendix C)

- Have the risk profiles and risk criteria been completed and included?