

# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

**Bulletin PC-68**  
**September 21, 2010**

To: ALL INSURANCE COMPANIES AUTHORIZED FOR AUTOMOBILE LIABILITY INSURANCE IN CONNECTICUT

Subject: PERSONAL AUTOMOBILE INSURANCE RATE FILINGS

Bulletin PC-68 supersedes previous Connecticut Insurance Department Bulletin PC-36, December 20, 2000, regarding filing and ratemaking procedures for personal automobile insurance. This bulletin describes the information that must be included in every personal automobile rate filing. Pursuant to Conn. Gen. Stat. §38a-389, base rates for bodily injury liability and uninsured/underinsured motorist coverage are subject to prior approval unless included in a "flex" filing (see Bulletin PC- 67).

Effective January 1, 2011, Conn. Gen. Stat. §38a-686 as amended by Public Act 10-7, mandates that certain expenses be allocated as flat dollar amounts to base rates. Additionally, the new law requires that the flat dollar amounts be included in the premium determination after classification factors have been applied. Classification factors include, at a minimum, age, sex, marital status, vehicle type and model year, usage, mileage, single v. multi-car, driving history and credit. All new and renewal policies effective on and after January 1, 2011 must comply with this section of the public act. Section B Appendices 4 and 4A provide procedural guidance for the calculation of flattened expense fees. Companies filing solely to comply with P.A. 10-7 are required to submit only Appendices 2, 4 and 4A with supporting information and B(9). Other methods of calculation of the flattened expense fees may be submitted for the Department's review.

If an insurer files rates by reference to rates charged by another insurer, as permitted by Conn. Gen. Stat. §38a-688(a)(3), or an insurer files rates using loss costs based on reference documents previously submitted by an advisory organization such as the Insurance Services Office, as permitted by Conn. Gen. Stat. §38a-688, then such insurers may limit the information they file to that described in Appendix 6. Filings must be submitted through SERFF. A filing must include the following:

- A. Appendix 1: Rate Filing Summary - Supporting information must be included in the filing for all revisions.
- B. A set of exhibits as described below:
  - (1) An exhibit showing indicated and adopted statewide rate level changes as a percentage of current rates for each program by coverage. Show changes for (a) variable rate, (b) flattened expense fee, and (c) total rate. See Appendix 2.
  - (2) An exhibit showing adopted rate level changes for each territory by coverage as percentages of current rates. Combine the effect of the variable rate portion and the flattened expense fee portion. The format should follow that shown in Appendix 3.

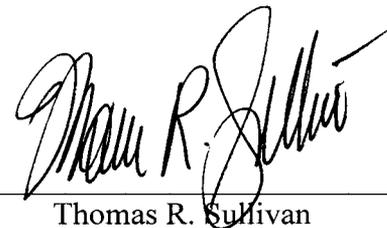
- (3) Exhibits, showing the company's statewide rate change indications broken down by accident year and coverage, are required. These exhibits may be in a format adapted to the company's own rate review process as long as they contain proper adjustments to the loss experience.
- (4) A set of exhibits, by coverage by territory, providing sufficient data to enable the Department to verify that the filing complies with the requirements of PA 10-7 and this Bulletin PC-68. These exhibits must reflect that:
  - (a) At least 90% of general and other acquisition expense and 100% of miscellaneous licenses, taxes and fees are reflected in the base rates as flat dollar amounts for all territories.
  - (b) Individual territorial loss cost data has been moderated with reference to statewide average loss costs by weighting the territorial indications with the statewide average 75% / 25% (i.e. 75% being the maximum weight for the individual territorial loss cost data in calculating the territorial rate and 25% being the statewide average loss costs data). Credibility procedures must be applied separately from 75% / 25% weighting.

Credibility, as used in actuarial ratemaking for automobile rates, is a measure of predictability assigned to a body of loss experience. Credibility is a normal part of ratemaking. Its purpose is not to "temper" the cost of insurance in urban territories or any other territory. The purpose of the requirement of 75% / 25% weighting is to temper the rates in high rated urban areas. Companies may not substitute the 75% / 25% weighting in place of credibility formulas normally used in the ratemaking process. The weighting formulas must be used in addition to credibility, not instead of credibility.

- (5) An exhibit showing the premium dollar breakdown, identifying variable and flattened expense portions. Include the calculation of the fixed expense fee by coverage to be applied to the base rates after classification factors are applied. See Appendices 4 and 4A.
- (6) An exhibit showing investment income as a factor of the rates, how it was calculated and an explanation of how it was taken into consideration in the calculation of the newly filed rates.
- (7) An exhibit showing, by coverage, the annual trend factors used (frequency and severity, each separately) and the combined effect of these factors on each year of experience used in the filing. See Appendix 5.
- (8) An exhibit for each voluntary market program showing four sets of car year exposures by territory, preferably on an earned car year basis for the most recent one-year period, for (1) Bodily Injury, UM/UIM and Property Damage Liability coverages, (2) Medical Expense coverage, (3) Comprehensive coverage and (4) Collision coverage. Please note the year used on the exhibit along with the name of the program.
- (9) An exhibit showing the rate order of calculation for individual premium determination.

C. Territorial Rating in Connecticut

1. Each rate territory is composed of one or more unique town codes. Companies may use zip codes to determine the territory of garaging for rating automobile insurance. Companies are not allowed to split a town or city into two territories. Company manuals must contain a rule that states if a street divides two rating territories or towns the rate used must be that of the lower of the two territories. Territory pages must be included with every rate filing.
2. For personal automobile insurance, the original filing of zip code conversion and any subsequent amendments to it are subject to prior approval. Before a company adopts a system which uses zip codes to determine rate territories, it must file a copy of the system with the Connecticut Insurance Department. The filing must include:
  - (a) A table of each zip code and its corresponding rate territory.
  - (b) A supplementary list of those zip codes which overlap two rate territories. Companies are not allowed to split a town or city into two territories. Company manuals must contain a rule that states that if a street divides two rating territories or towns the rate used must be that of the lower of the two territories.
  - (c) An explanation of:
    - (1) how your system identifies the zip code of the place of garaging versus that of mailing address.
    - (2) how your system accounts for changes in zip codes as they occur.
  - (d) An alphabetical list of the 169 Connecticut towns with territory code.



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Thomas R. Sullivan  
Insurance Commissioner

**RATE FILING SUMMARY FORM**

<b>1.</b> New Rates will be applied to policies:			
	a.	Next renewal	[ ]
	b.	Annually	[ ]
	c.	Other (explain)	[ ]
<b>2.</b> History of dividends or participating payment made during the past two years for the program(s) affected by this filing. Show the amount of dividend or participating payment as a percentage of earned premium.			
	Year		
	Percent of Premium		
<b>3.</b>	If program is a deviation of another program's rates, state factors:		Current Deviation
			Revised Deviation
<b>4.</b>	Are any of the following changed from the current filing*:		
	a.	Classification factors	Yes [ ] No [ ]
	b.	Increased limits factors	Yes [ ] No [ ]
	c.	Bodily injury liability rates	Yes [ ] No [ ]
	d.	Uninsured motorist coverage rates	Yes [ ] No [ ]
	e.	Merit rating (e.g. SDIP)	Yes [ ] No [ ]
	f.	Model year rating (APD)	Yes [ ] No [ ]
	g.	Vehicle series rating (APD)	Yes [ ] No [ ]
	h.	Age relativities	Yes [ ] No [ ]
	i.	Symbol relativities (APD)	Yes [ ] No [ ]
	j.	Deductible relativities (APD)	Yes [ ] No [ ]
	k.	Territorial definitions	Yes [ ] No [ ]
	l.	Credit	Yes [ ] No [ ]
<b>5.</b>	State the percentage of distribution of policy terms by program:		Annual
			Semi-Annual
<b>6.</b>	Is the source of data supporting the filing the same data file used to report statistics to your statistical agent?		
	Yes [ ] No [ ]		
	If not, are the two files reconciled periodically?		
	Yes [ ] No [ ]		
<b>7.</b>	Does the filing include any loading of any type for guaranty funds other than Connecticut?		
	Yes [ ] No [ ]		
<b>8.</b>	What percentage of data consists of:		
	a.	Actual case basis reserves, e.g. values based on individual claim adjuster's evaluation of the individual cases?	
	b.	Estimates of unreported or unrecorded claims?	
<b>9.</b>	Unreserved open claims are:		
	a.	Used in the filing and assigned reserves based on actuarial averages.	Yes [ ] No [ ]
	b.	Not used in the filing.	Yes [ ] No [ ]
	c.	Other- please describe	

\* Changes in these items should be supported in the filing

**AUTOMOBILE RATE FILING FORM**

		Statewide Rate Level Changes (Shown As Percentages)			Statewide Changes (Shown As Percentages)		
	Coverage	Indicated	Adopted	Earned Premium**	Variable Rate	Flattened Expense Fee	Total Rate
1.	BI Liability *						
2.	PD Liability *						
3.	CSL Liability *						
4.	UM/UIM Standard *						
5.	UM/UIM Conversion*						
6.	Medical Expense						
7.	Weighted Average of 1-6						
8.	Comprehensive						
9.	Collision						
10.	Weighted Average of 8 & 9						
11.	Overall Weighted Average of 7 & 10						

**NOTES**

\* Based on total policy limits

\*\* At current rate level (000's omitted).



**AUTOMOBILE RATE FILING FORM**

**PRIVATE PASSENGER AUTO LIABILITY/MEDICAL EXPENSE**

		TOTAL		FLATTENED	VARIABLE
		Expense	Percent	Expense	Expense
		Provision	Fixed	Provision	Provision
	Item	"t"		"f"	"v"
1A.	Commission				
1B.	Other Acquisition*				
1C.	General Expense*				
1D.	Premium Tax				
1E.	Miscellaneous Taxes, Licenses, and Fees**				
1F.	Underwriting Profit and Contingencies				
1G.	Investment Income***				
1H.	TOTAL				

Expected loss ratio, including loss adjustment expense:

(1) as a factor of total premium rate, variable and fixed:

$(1.0 - 1H \text{ "t"} =)$

(2) as a factor of variable premium rate:

$(1.0 - 1H \text{ "v"} =)$

**PHYSICAL DAMAGE**

		TOTAL		FLATTENED	VARIABLE
		Expense	Percent	Expense	Expense
		Provision	Fixed	Provision	Provision
	Item	"t"		"f"	"v"
2A	Commission				
2B.	Other Acquisition*				
2C.	General Expense*				
2D.	Premium Tax				
2E.	Miscellaneous Taxes, Licenses, and Fees**				
2F.	Underwriting Profit and Contingencies				
2G.	Investment Income***				
2H.	TOTAL				

Expected loss ratio, including loss adjustment expense:

(1) as a factor of total premium rate, variable and fixed:

$(1.0 - 2H. \text{ "t"} =)$

(2) as a factor of variable premium rate:

$(1.0 - 2H. \text{ "v"} =)$

\* At least 90% of these expense provisions must be treated as fixed.

\*\* 100% of this expense provision must be treated as fixed

\*\*\* Only complete this item if you treat investment income as a negative expense. Leave this item blank if you reflect investment income as an offset to the otherwise indicated changes in rate level.

Appendix 4A provides a sample method of calculating expense fees. If a company wishes to submit a different method of calculation, please support the method using detailed exhibits to clearly outline that it is in compliance with the law.

APPENDIX 4A							
Expense Fees							
		Bodily Injury Liability	Property Damage Liability	Medical Expense	Uninsured/Underinsured Motorist	Collision	Comprehensive
(1)	Projected Ultimate Losses (Total Limits)						
(2)	Earned Car Years						
(3)	Loss Cost (1)/(2)						
(4)	Expected Loss Ratio* (ELR) (Variable Expenses)						
(5)	Rate incl. variable expenses (3)/(4)						
(6)	ELR (total expenses)						
(7)	Rate incl. total expenses (3)/(6)						
(8)	Flattened Expense Fee (7)-(5)						
(9)	Average increased limits factor						
(10)	Flattened Expense Fee (8)/(9)						

\* Use Expected Loss Ratio from Appendix 4

Note: The flattened expense fee can be allocated to Liability coverages in total. The fee must be calculated separately for Collision and Comprehensive.

**EFFECT OF TREND**

		BI	PD	UM/UIM	MED EXP	COMP	COLL
1.	Annual Severity Factor Selected						
2.	Annual Frequency Factor Selected						
3.	Annual Pure Premium Trend Factor						
4.	Projected number of years from the experience period to the average loss date of / /						
	(a.) for period ending / /	n=	n=	n=	n=	n=	n=
	(b.) for period ending / /	n=	n=	n=	n=	n=	n=
5.	Effect of trend factor on experience for:						
	(a.) period shown in 4(a)						
	(b.) period shown in 4(b.)						

## APPENDIX 6

### PERSONAL AUTO INSURANCE FILING

#### REQUIREMENTS FOR TWO SPECIAL CASES

- A. INSURERS FILING RATES BY REFERENCE, WITH OR WITHOUT DEVIATIONS, TO RATES FILED BY ANOTHER INSURER AND IN EFFECT, AS PERMITTED BY Conn. Gen. Stat. §38a-688(a)(3).

If an insurer meets the requirements outlined in Conn. Gen. Stat. §38a-688(a)(3), it may adopt the rates of another insurer if those rates were filed and are in effect at the time of adoption. THIS SECTION DOES NOT PERTAIN TO REFERENCE DOCUMENTS OF ADVISORY ORGANIZATIONS, such as the Insurance Services Office (“ISO”). If an insurer uses this option, then the filing requirements outlined in this Bulletin PC-68 apply as follows:

- (a) Insurer must comply with Sections A, B(1), B(2), B(8) and B(9). Item 4 on Appendix 1 need not be completed if the company is adopting the same rules, factors or rates used by the company it is copying. If there is any variation for these items from those used by the company it is copying, then the filing must identify those items and include an explanation and support for the adoption of those changes.

- B. REFERENCE DOCUMENTS FILED BY AN ADVISORY ORGANIZATION AS PERMITTED BY Conn. Gen. Stat. §§38a-688 and 38a-673(c), e.g., ISO.

If an insurer uses this option, then the filing requirements outlined in this Bulletin PC-68 apply as follows:

- (1) Insurer must comply with Sections A, B(1), B(2), B(5), B(6), B(8) and B(9).

(a) B(1) and B(2) need only be completed if the Connecticut OTHER PRIVATE PASSENGER AUTOMOBILE LIABILITY direct premiums written shown on line 19.2 on page 14 of the most recently filed individual company annual statement shows more than 1 million dollars (i.e., before rounding).

(b) If the number of earned car year exposures is extremely small, the Insurance Department will waive completion of B(8).

(c) The filing requirement for item B(4)(b) need not be complied with if the company is adopting an ISO loss cost that has already addressed loss cost moderation to reflect a 75/25 weighting of the territorial loss cost with the statewide average loss cost.