

# **Legislative Regulation Review Committee**

2011-031

Insurance Department

**TERRITORIAL RATING SYSTEM FOR  
AUTOMOBILE INSURANCE**

R-39 Rev. 02/2010

**IMPORTANT:** Read instructions on bottom of last page (Certification Page) before completing this form. Failure to comply with instructions may cause disapproval of proposed regulations

## State of Connecticut **REGULATION** of

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NAME OF AGENCY  
INSURANCE DEPARTMENT

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### Concerning

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SUBJECT MATTER OF REGULATION  
TERRITORIAL RATING SYSTEM FOR AUTOMOBILE INSURANCE

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### Section 1.

The Regulations of Connecticut State Agencies are amended by adding sections 38a-686-1 to 38a-686-4, inclusive, as follows:

#### **(NEW) Sec. 38a-686-1. Definitions**

As used in Sections 38a-686-1 to 38a-686-4, inclusive, of the Regulations of Connecticut State Agencies:

- (1) "Adopted statewide rate level change" means the premium weighted average of all base rate level changes.
- (2) "Antique, rare or special interest motor vehicle" has the same meaning as provided in section 14-1 of the Connecticut General Statutes.
- (3) "Base rate" means the benchmark premium rate for each territory.
- (4) "Classification system" or "classification" means the process of grouping risks with similar risk characteristics so that differences in costs may be recognized.
- (5) "Commissioner" means the Insurance Commissioner of the State of Connecticut.
- (6) "Credibility" means a measure of actuarial predictability assigned to a body of loss experience for private passenger nonfleet automobile insurance.
- (7) "Department" means the Connecticut Insurance Department.
- (8) "Exposure unit" for private passenger nonfleet automobile insurance rating means one automobile insured for a twelve month period.
- (9) "Insurer" means an entity or affiliated group of entities licensed by the Commissioner to write private passenger nonfleet automobile insurance business in this State or a licensed rating or advisory organization.
- (10) "Indicated statewide rate level change" means the premium weighted average of the indicated base rate changes.
- (11) "Indicated loss costs" means the expected loss costs per exposure unit based on actuarially adjusted historical loss data.
- (12) "Loss costs" means the portion of the premium that is applicable solely to loss, without provision for insurer expenses or profits.
- (13) "Private passenger nonfleet automobile insurance policy" means an insurance policy issued for one or more personal risk automobiles, but does not include motorcycles, recreational vehicles and antique, rare or special interest motor vehicles.

**(NEW) Sec. 38a-686-2. Private Passenger Automobile Insurance Rate Filings**

**(a) Standards for the Establishment of Territorial Classifications.** In order to create a classification system for rating private passenger nonfleet automobile insurance risks, an insurer may group risks by geographical territories composed of one or more unique town codes. An insurer may use the United States Postal Service ZIP Codes corresponding to the unique town codes to determine the territory of garaging for private passenger nonfleet automobile individual risks. An insurer shall not split a town or city into two or more geographical territories if more than one ZIP Code is ascribed to the particular town or city. If a street, road or similar geographic unit divides two geographically configured rating territories, an insurer shall rate the particular risk using the lower rate of the two territories. An insurer shall include a complete description of each geographical territorial configuration used in its rating plan filing.

**(b) Territorial Rate Filing Procedures.** An insurer's geographical rating territories filed with the Department and any amendments to such geographical rating territories shall be subject to the Department's review and approval prior to its use. The Department shall disapprove any rating territory that does not conform to the requirements of this regulation.

**(c) Territorial Rate Filing Information.** Prior to an insurer adopting and implementing a classification system that uses ZIP Codes to establish geographical rating territories, an insurer shall file with the Department a copy of the classification system with the following information: (1) a table of each ZIP Code and its corresponding geographical rating territory; (2) a supplementary list of those ZIP Codes that overlap two or more rating territories; (3) an explanation of how the proposed rating system identifies the ZIP Code of the place of garaging versus the mailing address; (4) an explanation of how the proposed classification system will take into account changes in ZIP Code configurations as they occur; and (5) an alphabetical listing of the current one hundred sixty-nine Connecticut towns with a territory code assigned to each.

**(d) Territorial Loss Costs Weighting Procedures.** In computing an individual territorial base rate, an insurer shall moderate indicated loss costs data with reference to the insurer's statewide average loss costs by weighting the territorial indications with the statewide average as follows: (1) seventy-five per cent as the maximum weight for the individual territorial loss costs indication; and (2) twenty-five per cent of the statewide average loss costs indication.

**(e) Credibility.** In accordance with sound actuarial principles, an insurer shall apply credibility procedures separately from the seventy-five per cent and twenty-five per cent loss costs weighting procedures set forth in subsection (d) of this section. An insurer shall not use credibility adjustment procedures as a substitute for the seventy-five per cent and twenty-five per cent loss costs weighting procedures in the ratemaking process. An insurer shall use and apply the weighting procedures in addition to credibility adjustments.

**(f) Classification Factors.** An insurer may group risks by classifications for the establishment of rates and minimum premiums. Factors that may be used to classify risks include driving history, age, sex, marital status, credit history, miles driven, type (make, model and year) of vehicle driven and number of vehicles insured. An insurer may modify rates for each rating classification using sound actuarial principles to produce rates for individual risks in accordance with rating plans that establish standards for measuring variations in hazards or expense provisions, or both. Such standards may measure any differences among risks that can be demonstrated to have a probable effect upon an insurer's actual losses or expenses.

**(g) Variable Cost Loading.** In computing individual territorial base rates, an insurer shall treat producer commissions, premium taxes, underwriting profits and contingencies as variable expenses and allocate such expenses to base rates in proportion to premiums. An insurer shall not allocate such expenses as flat dollar amounts in computing base rates.

**(h) Flat Dollar Cost Loading.** In computing individual territorial base rates, an insurer shall treat the following costs as fixed expenses and allocate such costs to base rates on a flat

dollar amount basis: (1) at least ninety per cent of its general expenses, including administration and overhead costs; (2) at least ninety per cent of its acquisition costs for marketing and agent field offices, which may be allocated over the expected life of an insurer's private passenger nonfleet automobile insurance policies; and (3) one hundred per cent of its miscellaneous taxes, licenses and fees. An insurer shall allocate such flat dollar amounts to base rates by type of coverage after applying classification factors in its ratemaking methodology.

**(i) Filing Updates.** An insurer shall file with the Department updated territorial indications and relativities for each of its private passenger automobile territorial rating plans at least once every three years following its initial or amended rate filing submitted on or after July 1, 2012.

### **(NEW) 38a-686-3. Private Passenger Automobile Rate Filing Submission Requirements**

**(a) Supporting Information.** An insurer shall make a private passenger automobile rate filing with the Department each time it seeks to change the base rate on a new or renewal private passenger automobile insurance policy. An insurer shall include the information set forth in this section to actuarially support the rate being requested in its private passenger automobile rate filing.

**(b) Actuarial Exhibits.** An insurer shall file the following exhibits to support each territorial rate filing made to the Department:

**(1)** An exhibit showing the indicated statewide rate level change and the adopted statewide rate level change as a percentage of current rates for each rating program, identified by type of insurance coverage. The exhibit shall set forth all changes to the: (i) variable expense rate; (ii) flattened expense fee; and (iii) total rate.

**(2)** An exhibit showing the adopted rate level change for each territory by type of insurance coverage as a percentage of current rates. The exhibit shall combine the effect on rates of the variable rate portion and the flattened expense fee portion.

**(3)** A set of exhibits showing the insurer's indicated statewide rate level changes categorized by accident year and coverage. An insurer may adapt the exhibits required under this subdivision to a format that reflects the insurer's specific rate review process, provided such insurer shall include all actuarially supported adjustments to the insurer's loss experience in such exhibits.

**(4)** A set of exhibits showing that the insurer's base rates include, as flat dollar amounts for all territories, at least ninety per cent of its general and other acquisition expenses and one hundred per cent of its miscellaneous licenses, taxes and fees.

**(5)** A set of exhibits showing that the insurer's individual territorial loss costs data has been moderated with reference to statewide average loss costs by weighting the territorial indications with the statewide indications using seventy-five per cent as the maximum weight for the individual territorial loss costs data in calculating the territorial rate and twenty-five per cent being the statewide average loss costs data.

**(6)** An exhibit showing, by type of coverage, the insurer's variable expense portion of premium and the flattened expense portion of premium. Include the calculation of the flattened expense fee by type of coverage.

**(7)** An exhibit showing the insurer's investment income as a factor of the rates, including the manner in which investment income is calculated and an explanation of how it is applied in the insurer's rate filing methodology.

**(8)** An exhibit showing, by type of coverage, the insurer's annual trend factors used in its ratemaking methodology displaying frequency and severity separately and the combined effect of these factors on each year of experience used in the filing.

(9) An exhibit identifying the insurer's name of the program and year used for the filing showing examples of four sets of car year exposures by territory, on an earned car year basis for the most recent one-year period, for the following types of coverage: (i) bodily injury, uninsured motorist coverage and underinsured motorist coverage; and property damage liability coverages; (ii) medical expense coverage; (iii) comprehensive coverage; and (iv) collision coverage.

(10) An exhibit showing the insurer's rate order of calculation for premium determination.

**(NEW) 38a-686-4. Effective Date**

This regulation shall be effective January 1, 2012.

## **Section 2.**

### **Statement of Purpose:**

The purpose of this proposed regulation is to implement: (i) the territorial rating system and its requirements for use in the development of private passenger nonfleet automobile insurance rates as set forth in Public Act 10-7; and (ii) the Insurance Department guidelines and bulletins that pertain to territorial rating classification requirements for private passenger nonfleet automobile insurance. The regulation limits the weight of territorial loss cost indications that can be used in the development of private passenger automobile insurance rates and provides rules concerning the methodology used in allocating an insurer's expenses used in the development and calculation of automobile insurance rates. This regulation implements current Insurance Department guidelines and bulletins pertaining to automobile insurance territorial rating classifications and does not affect existing regulations or other laws.

**(a) CERTIFICATION**

Be it known that the foregoing (check one)  Regulations  Emergency Regulations  
are (check all that apply)  Adopted  Amended as hereinabove stated  Repealed

(i) by the aforesaid agency pursuant to section(s) 38a-686(d) of the  
**General Statutes and/or Public Act number(s)**

(If applicable) after publication of notice of intent in the *Connecticut Law Journal* on 9/6/11,

(If applicable) and the holding of an advertised public hearing on \_\_\_\_\_;

WHEREFORE, the foregoing regulations are hereby (check all that apply)

Adopted  Amended as hereinabove stated  Repealed

**EFFECTIVE:** (check one, and complete as applicable)

When filed with the Secretary of the State

OR  (insert date) January 1, 2012

In Witness Whereof:	DATE <u>10/19/11</u>	SIGNED (Head of Board, Agency or Commission) <i>Thomas B. Leonardi</i>	OFFICIAL TITLE, DULY AUTHORIZED Thomas B. Leonardi, Commissioner
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APPROVED by the Attorney General as to legal sufficiency in accordance with CGS Section 4-169, as amended

DATE	SIGNED (Attorney General or AG's designated representative)	OFFICIAL TITLE, DULY AUTHORIZED
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Or  DEEMED APPROVED by the Attorney General in accordance with CGS Section 4-169, as amended, due to failure to give notice to the agency of any legal insufficiency within thirty (30) days of the receipt of the proposed regulation.

DATE <u>11/9/11</u>	SIGNED (Head of Board, Agency or Commission) <i>Joseph Rubin</i>	OFFICIAL TITLE, DULY AUTHORIZED ASSOC. ATTY. GENERAL
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(For Regulation Review Committee Use ONLY)

- Approved  Rejected without prejudice
- Approved with technical corrections  Disapproved in part, (Indicate Section Numbers disapproved only)
- Deemed approved pursuant to CGS 4-170(c) as amended

By the Legislative Regulation Review Committee in accordance with CGS Section 4-170, as amended	DATE	SIGNED (Administrator, Legislative Regulation Review Committee)
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Two certified copies received and filed and one such copy forwarded to the Commission on Official Legal Publications in accordance with CGS Section 4-172, as amended.

DATE	SIGNED (Secretary of the State)	BY
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**INSTRUCTIONS**

- All regulations proposed for adoption, amendment or repeal, *except* emergency regulations, must be presented to the Attorney General for his/her determination of legal sufficiency. (See CGS Section 4-169.)
- After approval by the Attorney General, original and eighteen (18) copies of all regulations proposed for adoption, amendment or repeal must be presented to the standing Legislative Regulation Review Committee for its action. (See CGS Section 4-170.)
- Each proposed regulation must be in the form intended for publication and each section must include the appropriate regulation section number and section heading. (See CGS Section 4-172.)
- New language added to an existing regulation must be in underlining or CAPITAL LETTERS, as determined by the Regulation Review Committee. (See CGS 4-170(b).)
- Language to be deleted must be enclosed in brackets [ ]. (See CGS 4-170(b).)
- A new regulation or new section of a regulation must be preceded by the word "(NEW)" in capital letters. (See CGS Section 4-170(b).)
- The proposed regulation must have a statement of its purpose following the final section of the regulation. (See CGS Section 4-170(b).)
- Additional information regarding rules and procedures of the Legislative Regulation Review Committee can be found on the Committee's web site: <http://www.cga.ct.gov/rr/>.
- A copy of the Legislative Commissioners' Regulations Drafting Manual is located on the LCO website at <http://www.cga.ct.gov/lco/LCODraftRegu.asp>.