

INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE

Rate Filing Requirements: Voluntary Market Private Passenger Automobile Insurance

Proposed Amendments: N.J.A.C. 11:3-16.2, 16.3, 16.6, 16.8, 16.10, 16.11 and Appendix Exhibits C, E and H

Proposed Repeals: N.J.A.C. 11:3-16; Appendix Exhibits AI, AII and K

Proposed New Rule: N.J.A.C. 11:3-16 Appendix Exhibit A

Authorized By: Holly C. Bakke, Commissioner, Department of Banking and Insurance.

Authority: N.J.S.A. 17:1-8.1, 17:1-15(e) and 17:29A-1et seq.

Calendar Reference: See Summary below for explanations of exceptions to calendar requirement.

Proposal Number: PRN 2002-357

Submit comments by December 6, 2002 to:

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The agency proposal follows:

Summary

The Department of Banking and Insurance (“Department”) is proposing amendments to its Rate Filing Requirements for Voluntary Market Private Passenger Automobile Insurance found at N.J.A.C. 11:3-16. The Department is amending these rules to clarify and update terms and page numbers used in these rules. The Department is replacing the checklist found in

N.J.A.C. 11:3-16 Appendix Exhibit AII with Exhibit A, “Prior Approval Filings,” so that it reflects the current rules. Exhibit AI is being deleted because insurers no longer file flex rate filings. The Department is further amending these rules to change the interest rate used in the calculation for investment income. Currently this calculation is based on the interest rate of the most recent six months for the Moody’s seasoned AAA corporate bond rate. The Department is amending this calculation to reflect what the insurer actually earned over the last two years.

The Department is amending N.J.A.C. 11:3-16.2 to delete the definition of the terms “AIP,” “amount(s) to the MTF,” “MTF” and “NJAFIUA.” These terms are no longer applicable to rate filings. The Department is clarifying that the term “all other coverages” applies to information found in “New Jersey” Page 14 of the Statutory Annual Statement.

N.J.A.C. 11:3-16.3 is being amended to identify more fully the division to which filings should be submitted and to specify the number of copies of the filing that should be submitted.

N.J.A.C. 11:3-16.6 is being amended to delete the requirement that the cover letter for a prior approval filing include the percentage and dollar amount of any changes in rates for each company. The proposed amendment would require that the effective date of the proposed change be included. These amendments also require submission of Appendix Exhibit E, incorporated by reference, and recodify current paragraphs 3 through 7 as 4 through 8. Additionally, these proposed amendments clarify the manner in which loss development data should be submitted, and replaces the Lotus 123 spreadsheet requirement with a Microsoft Excel 97 requirement.

N.J.A.C. 11:3-16.8(a) is being amended to clarify and update terms. For example, in N.J.A.C. 11:3-16.8(a)1 the Department is correcting this provision by deleting the phrase “lost” and replacing it with “loss.” The Department is adding the term “direct” to the phrase “earned

premium” in order to clarify that it is the “direct earned premium” that is to be calculated. N.J.A.C. 11:3-16.8(a) is being amended to clarify that filers provide data regarding New Jersey premiums, loss and loss adjustment expenses for the latest three years, and, where applicable, at either total limits and/or basic limits. In N.J.A.C. 11:3-16.8(a)1, the Department is deleting the requirement for filers to provide justification for the selected use of a particular method. The Department is deleting the term “experience year” and replacing it with the correct term of “accident year” in N.J.A.C. 11:3-16.8(a)2. N.J.A.C. 11:3-16.8(a)2 is also being amended to add the word “direct,” to “incurred losses,” as well as adding the phrases “defensive and cost containment expenses,” and “adjusting and other expenses” following the terms “paid or incurred.” N.J.A.C. 11:3-16.8(a)7 is being amended to clarify that compliance with this provision is only necessary if there is a change in tier activity. The Department is also amending paragraph (a)8 to clarify that, for each coverage, insurers are to provide total “earned” premium at present rate. N.J.A.C. 11:3-16.8(f) is being amended to clarify the data requirements for small filers. The subsection is also amended to add specific legislative factors that must be used in calculations.

N.J.A.C. 11:3-16.9 is being amended to delete the requirements that filers provide details on the application of the methodology to this filing. It is also being amended to clarify where the average incurred expense per exposure can be found. Additionally, the Department’s amending this rule to state in N.J.A.C. 11:3-16.9(a)3 that the “calculation of indicated fixed expense fee on a per exposure basis” as required by N.J.S.A. 17:29A-37. The Department is also amending paragraph (a)4 to exclude “LAD” fees and “AIRE allocation” and “AIRE investment income.” The Department is deleting paragraph (b)1 because this information is no longer necessary. The Department is amending N.J.A.C. 11:3-16.8(c)4 to require “defense and cost containment” for

each flow pattern. N.J.A.C. 11:3-16.9(e) is being amended to require that insurers provide the resulting rate of return as equity capital and on total assets, given the selected underwriting profit and contingency “provision calculated in N.J.A.C. 16.10(a)1.”

N.J.A.C. 11:3-16.10(a)4 and 5 are being amended to clarify that it is the “New Jersey” Page 14 of the “Statutory” Annual Statement for the ratio of unearned premium reserves. N.J.A.C. 11:3-16.10(a)5i is being amended to delete reference to AIP reserves which is no longer applicable. N.J.A.C. 11:3-16.10(a)8 is being amended to change the basis for the calculation of the interest rate from being based on Moody Seasoned AAA corporate bond rate, to being based on what the insurer actually earned. The Department is amending N.J.A.C. 11:3-16.10(b) by adding “from New Jersey Page 14 of the Statutory Annual Statement past three years” to clarify where the “New Jersey specific data is found.” It is also clarifying that “the expense provision shall be calculated as a percentage of New Jersey written premium.”

N.J.A.C. 11:3-16.11 is being amended to delete the references to the Market Transition Facility (“MTF”) which is no longer in existence. Additionally, it is being amended to refer to the “New Jersey Page 14 of the Statutory Annual Statement” for the data that shall be submitted.

The Department is replacing Appendix AII with Exhibit A. Exhibit A reflects the Department’s proposed amendments, references the corresponding rule and is in a revised format.

The Department is amending Exhibit C to delete the requirement that indicates whether this form is being used for a flex rate, prior approval increase or prior approval decrease filing because it is no longer necessary. Additionally, the Department is amending DOI to read DOBI (the Department of Banking and Insurance). Exhibit E is being amended to state that insurers are to add columns for the latest year earned exposures and latest year on-level earned premium by

coverage. Exhibit H is being amended to change the date that the Department will compile its list of the 20 largest private passenger automobile companies or groups from September 30 to June 30. Additionally, language is being added to clarify how commissions and brokerage expenses shall be calculated. The Department is also deleting Exhibit K because it is no longer necessary as a result of the Department's Filing Source Document MARS001, N.J.A.C. 11:3-16.3(e). The Department revised the questionnaires (see N.J.A.C. 11:1-21 and 11:3-16.3) that insurers submit along with its personal and commercial filings. These rules were adopted effective April 1, 2002 at 34 N.J.R. 1431(b).

The Department's rule proposal provides for a comment period of 60 days, and, therefore, pursuant to N.J.A.C.1:30-3.3(a)5, is not subject to the provisions of N.J.A.C. 1:30-3.1 and 3.2 governing rulemaking calendars.

Social Impact

The Department believes that the proposed amendments and repeals should have a positive social impact on insurers. The amendment to N.J.A.C. 11:3-16.10(a)8 which permit insurers to calculate the investment income interest rate based on what they actually made renders these calculations more accurate and responds to fluctuations in investment income. The Department's amendments to other areas of these rules should clarify confusion that insurers may have had in applying these rules to their rate filings.

Economic Impact

The Department believes that the proposed amendments and repeals should have a positive economic impact on insurers. The proposed amendments will permit insurers the

opportunity to reflect accurately in their rate filing the interest that they actually earned. These rules will have no economic impact on the Department.

Insurers will not incur any administrative cost in order to comply with these proposed amendments. These rules do not require any new systems to be in place nor additional personnel.

Federal Standards Statement

A Federal standards analysis is not required because the proposed amendments and repeals are not subject to any Federal standards or requirements.

Jobs Impact

The Department does not anticipate that these proposed amendments and repeals will result in the generation or loss of jobs.

Agriculture Industry Impact

The Department does not expect any impact on the agriculture industry from the proposed amendments and repeals.

Regulatory Flexibility Analysis

Pursuant to the New Jersey Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., a “small business” means any business resident in this State that employs fewer than 100 full-time employees and is not dominant in its field. A few New Jersey automobile insurers meet this definition. The Department observes that the proposed amendments do not impose any new

recordkeeping requirements, but merely revise an investment calculation, and add language to clarify how these rules apply. The new reporting and compliance obligations are described in the Summary above. These proposed amendments will not cause insurers to incur any capital costs in order to comply. These amendments do not require insurers that may be small businesses to employ additional professional services in order to comply with these rules. These amendments will be beneficial to insurers. Additionally, the Department does not believe that these amendments will impose any undue burden on small businesses.

Smart Growth Impact

The proposed amendments and repeals have no impact on the achievement of smart growth and the implementation of the State Development and Redevelopment Plan.

Full text of the proposed repeals may be found in the New Jersey Administrative Code at N.J.A.C. 11:3-16 Appendix Exhibits AI, AII and K.

Full text of the proposed amendments and new rule follow (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

11:3-16.2 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

. . . .

["AIP" means the Automobile Insurance Plan which, prior to January 1, 1984, issued policies providing insurance coverage for personal private passenger automobiles in accordance

with N.J.S.A. 17:29D-1.]

"All other coverages" means insurance for towing and labor, accidental death and dismemberment, extended medical benefits, additional personal injury protection, rental reimbursement and any other items included in Lines 19.1, 19.2 or 21.1 of New Jersey Page 14 of the Statutory Annual Statement, which are for private passenger automobile non-fleet exposures, except those items defined as "coverages."

[Amount(s) paid to the MTF" includes all payments actually made by insurers to the MTF, which are to be credited as all or part of the insurer's apportionment share of MTF losses, pursuant to N.J.S.A. 17:33B-11d and the MTF Plan of Operation, including any payment made on account of the insurer's liability or in response to an Order of the Commissioner directing that payment be made.]

["MTF" means the Market Transition Facility established pursuant to N.J.S.A. 17:33B-11.

"NJAFIUA" means the New Jersey Automobile Full Insurance Underwriting Association established pursuant to N.J.S.A. 17:30E-1 et seq.]

11:3-16.3 General requirements and filing format

(a) - (c) (No change.)

(d) All filings shall be submitted to the Department at the following address:

New Jersey Department of Banking and Insurance

Office of Property [/] **and** Casualty

PO Box 325

Trenton, New Jersey 08625-0325

(e) - (f)(No change.)

(g) Each filer shall submit prior approval filings in loose leaf form inserted into standard three-ring binders. The loose leaf sheets used in the filing shall be [eight and one half] **8.5** inches wide and 11 inches long and punched for three hole standard binders. Only one side of the page shall be used. Each page shall be consecutively numbered. **A total of three copies shall be submitted.**

(h) - (l) (No change.)

11:3-16.6 Insurer filings for rates requiring prior approval

(a) Any insurer that desires to modify its rates or rating systems in a manner other than that provided by N.J.S.A. 17:29A-46.6 shall provide the following information in support of its application:

1. A cover letter notifying the Department of its intention to modify its rating system in a manner that requires prior approval, pursuant to N.J.S.A. 17:29A-14; a statement describing the proposed changes, which shall include [the percentage and total dollar amount of any change in rates for each company included in the filing with subtotals by groups of coverages and a grand total (including the variable portion plus expense fees) by coverage and overall;] **the proposed effective date of the change,** and the name, telephone number and mailing address of the company officer familiar with the filing, to whom inquiries about the

filing may be directed;

2. A checklist that sets forth the information in Exhibit [AII]A in the Appendix incorporated herein by reference;

3. Exhibit E in the Appendix, incorporated herein by reference.

Recodify existing 3. - 6. As **4. - 7.** (No change in text.)

[7.] **8.** Data described in N.J.A.C. 11:3-16.8(c) (loss development) and 16.9(c)2, 3 and 4 (cash-flow patterns) shall be submitted in written copy and, except for purely textual information, on an MS-DOS formatted **3.5 inch 1.44 MB disk or a CD-ROM.** Filers with fewer than 20,000 exposures in the prior year are exempt from submitting the formatted disk. [The disk shall be a 3.5 inch 1.44 MB disk.] The information shall be provided in a [Lotus 123 version 5] **Microsoft Excel 97** or compatible spreadsheet. The left and top margins of each page shall indicate the row and column respectively of all data on the page. Each page of written copy shall also display in the bottom right corner the name of the computer file and disk on which it is contained. All calculated values shall be given as a formula in the spreadsheet.

(b) (No change.)

(c) Upon approval, insurers shall file manual rating pages on or before the effective date of the rates. In the case of rating organizations, the manual rating page shall reflect the [lost] **loss** cost information.

11:3-16.8 Premiums, loss costs, loss and loss adjustment expense data

(a) Filers shall provide the following data regarding New Jersey premium, loss and loss adjustment expenses, for the latest three years, **and, where applicable, at either total limits and/or basic limits:**

1. For each coverage, or combined coverages when the premium, or [lost] **loss** cost, is inseparable, calculate **direct** earned premium, or [lost] **loss** cost, at present rates using either the extension of exposures or on level factor methodologies. Provide the rate level history. Provide the underlying calculations and indicate how such calculations were produced and supply supporting documentation for a sample of such calculations and justifications of any factors used where the on level factor methodology is used. [Provide the justification for the selected use of a particular method in calculating the rate level. Provide this information either at basic limits or at total limits.]

2. For each coverage and each [experience] **accident** year used in setting the overall rate level, the following information [at total limits and, at the filer's option, basic limits]:

- i. Direct earned exposures measured in car years;
 - ii. [Incurred] **Direct** incurred losses;
 - iii. Applicable loss development factors ([aged] **aged-to-ultimate**);
 - iv. Paid or incurred **defense and cost containment expenses** (allocated loss adjustment expenses);
 - v. Paid or incurred **adjusting and other expenses** (unallocated loss adjustment expenses) shall be provided on a countrywide basis as reported in the Insurance Expense [Report] **Exhibit**;
 - vi. (No change.)
 - vii. Trend factors; and
 - viii. (No change.)
3. - 4. (No change.)

5. All information related to the derivation of classification differentials contained in the filing. Include the [minimum] information in (a)5i through iii below. Compliance with this paragraph is only necessary if there is a change in the classification relativities.

i. – iii. (No change.)

6. (No change.)

7. Tier relativity calculations including earned premiums or [lost] **loss** costs, earned exposures, incurred losses, and the number of claims by tier separately for each coverage and each of the years used to determine the tier relativities, or for each of the last three years, whichever is greater. **Compliance with this paragraph is only necessary if there is a change in the tier relativities.**

8. For each coverage, provide total [on level] **earned** premium at **present rates** and [on level] **earned** premium **at present rates** excluding expense fees.

9. - 10. (No change.)

(b) In the event a filer's percentage of pleasure use classification as reflected in (a)[8]**9** above is greater than the mean as established each year pursuant to N.J.A.C. 11:3-16.15(c), the filer shall provide a written explanation why the filer's pleasure use classification exceeds the Statewide mean. This may include verifiable reference to:

1. - 3. (No change.)

(c) - (d) (No change.)

(e) Each filer, except small filers, shall provide the data in (e)1 through 7 below. Small filers shall provide the data in (e)3 and 4 below:

1. - 2. (No change.)

3. The information in (e)2 above for [either basic or total limits] incurred losses;

4. [For liability coverages only, the] **The** information in (e)2 above for allocated loss adjustment expenses on a paid or incurred basis. Alternatively, if allocated loss adjustment expenses are not available separately, the filer shall provide incurred losses and allocated loss adjustment expenses combined and so indicate on the filing;

5. The information in (e)2 above for [the number of] paid claim **counts**;

6. The information in (e)2 above for [the number of] incurred claim **counts**; and

7. (No change.)

(f) Each filer, except small filers, shall provide the following data regarding trend factors and their application. **Small filers shall provide the data required by (f)2, 4 and 5.**

1. All internal loss trend data on a [calendar year] paid and, at the filer's option, incurred basis shown separately for frequency and severity for the latest available five [calendar] **rolling** years on a quarterly year ending basis for all coverages for New Jersey. Bodily injury liability and property damage liability trend data shall be given at [total limits and, at the filer's option, basic limits] **the same limits as used for (a) above.** Basic personal injury protection ("PIP") data shall be given at a per person limit retained by the insurer according to N.J.S.A. 39:6-73.1 (\$75,000 of insurer payments). Physical damage coverages shall be shown on the basis of the \$500.00 deductible or all deductibles combined adjusted to the \$500.00 deductible basis. In the latter case, the filer shall provide an explanation of the methodology for adjusting other than \$500.00 deductible data to the \$500.00 deductible level.

2. All external industry fast track loss trend data on a [calendar year] paid basis shown separately for frequency and severity for the latest available five [calendar] years on a **rolling** quarterly year ending basis for all coverages for New Jersey.

3. - 4. (No change.)

5. Information, including studies, analyses, and fact sheets regarding the effects of the items described in (d)5i through vi below [if the filer has either compiled the information itself or relied upon outside information in support of the filing. If the effects of such studies, etc., have been incorporated into the rate filing, describe] . **Describe** in detail the methodologies used **in calculating the effects**. Provide this information for the following:

i. - iii. (No change.)

iv. Changes in the price and amount of [gasoline] **fuel** purchased;

v. Changes in the average [miles] **distance** driven; and

vi. Other legislative, regulatory, social, or economic factors that have an impact on loss frequency or severity, including, but not limited to, the effects of [the Fair Automobile Insurance Reform Act of 1990, N.J.S.A. 1733B-1 et. seq.] **the Automobile Insurance Cost Reduction Act of 1999, P.L. 3 et seq., the Primary Seat Belt Law of 2000, N.J.S.A. 39:3-76.2a et seq., and the Graduated Licensing Law of 2001, N.J.S.A. 39:3-10 et seq.**

(g) Each filer shall provide the following regarding changes in the New Jersey premium or loss cost base and exposures:

1. Data on the mix of written exposures by [different] **length of** policy [terms] for the last three years. Include both the number of written exposures and the amount of written premium or [lost] **loss** cost for different policy terms;

2. - 3. (No change.)

(h) - (j) (No change.)

11:3-16.9 Data requirements for expense and profit provisions

(a) Filers, not including rating organizations, shall provide the data in (a)1 through 4 below regarding expenses for the latest three calendar years:

1. All information related to the derivation of expense provisions contained in the filing specifically including:

i. All data and worksheets used and judgment made; **and**
 ii. A complete description of the methodology used to derive the provisions; [and]

[iii. Details on the application of the methodology to this filing;]

2. Average incurred expenses per exposure [on a New Jersey basis (explain the basis of allocation) and on a countrywide basis] for each of the last three complete calendar years for the following expense categories:

i. Commission and brokerage, **from New Jersey Page 14 of the Statutory Annual Statement;**

ii. Other acquisition expenses, **from Part 3 of the Insurance Expense Exhibit;**

iii. General expenses, **from Part 3 of the Insurance Expense Exhibit;**

and

iv. Taxes, licenses, and fees, **from New Jersey Page 14 of the Statutory Annual Statement;**

3. The derivation of the expense flattening, **the calculation of indicated fixed expense fees on a per exposure basis,** as required by N.J.S.A. 17:29A-37. The expense flattening calculation shall exclude the UCJF assessment for the excess medical benefits

reimbursed to insurers by that fund. The expense shall be applied by coverage; and

4. All data shall be on a direct basis excluding **LAD fees and** AIRE assessments, **AIRE allocation** and [reimbursements] **AIRE investment income**.

(b) Filers shall provide the following data regarding proposed rates or loss costs:

1. (No change.)

[2. Classification differentials, with descriptions, if proposed changes are being made to the currently approved classification plan;]

[3.]**2.** The calculations showing that the proposed rates for each tier are in compliance with N.J.S.A. 17:29A-36. The base class rates for the territorial calculations shall be inclusive of expense fees but exclusive of all discounts. In determining rates for principal operators 65 years of age or older, ratios of rates shall be inclusive of expense fees and exclusive of discounts. The filer's average base rate for each tier shall be determined from each tier's territorial distribution for the latest year of data contained in the filing either:

i. - ii.

Recodify 4. and 5. as **3. and 4.** (No change in text.)

(c) Filers shall provide the following data regarding investment earnings:

1. The amount of investment income earned on loss, loss adjustment expense and unearned premium reserves in relation to earned premium for private passenger automobile insurance in New Jersey shall be calculated for the latest two years and estimated for the current year [and the two following years]. Calculations should be provided in detail including the amount of the composite reserves of each type (that is, loss, loss adjustment expense and unearned premium) at the beginning and end of each of the specified years;

2. - 3. (No change.)

4. The cash flow pattern from policy inception date for [losses] loss, **defense and**

cost containment [allocated loss adjustment] expenses (**ALAE**), and **adjusting and other** [adjusting and other] expenses (**ULAE**).

(d) (No change.)

(e) Filers shall provide the following information regarding investment earnings on capital and surplus:

1. Given the selected underwriting profit and contingency [loadings contained in the filing] **provision calculated in N.J.A.C. 11:3-16.10(a)1**, the resulting rate of return on equity capital and on total assets, showing the derivation on all factors used to produce the calculation.

(f) (No change.)

11:3-16.10 Rate calculation using standard ratemaking methodology

(a) Investment income shall be treated by group of coverages as follows:

1. The calculation of the underwriting profit and contingency [loading] **provision** taking into account investment income on loss, loss adjustment expense, and unearned premium reserves shall be calculated in accordance with the Clifford Formula methodology, wherein the combined after-tax profit from underwriting and investment income on loss, loss adjustment expense, and unearned premium reserves is 3.5 percent of premium. The profit and contingency provision may be calculated using a discounted cash flow method with the cash-flow patterns provided in N.J.A.C. 11:3-16.9(c); otherwise, the company shall provide the information contained in (a)2 through 6 below.

2. - 3. (No change.)

4. The ratio of unearned premium reserves to premium shall be obtained from the

appropriate line of business from New Jersey Page 14 of the [statutory] Statutory Annual Statement [for New Jersey]. The calculations shall be the direct unearned premium reserve divided by the direct premiums written.

5. The ratio of loss reserves to incurred losses shall be on a direct business basis derived from the appropriate line of business from New Jersey Page 14 of the Statutory Annual Statement [for New Jersey]. The calculations shall be as follows:

i. The average of the loss reserve (excluding the reserves for excess medical benefits claims over \$75,000 [and AIP reserves]) at the beginning of the year and at the end of the year divided by the corresponding incurred losses during the year;

ii. - iii. (No change.)

6. - 7. (No change.)

8. The interest rate used in the calculation shall be a simple average of the [most recent six monthly numbers for the Moody's seasoned AAA corporate bond rate as published in the Federal Reserve statistical release "Selected Interest Rates." Or the insurer's actual prospective yield,] **calculated investment income yield for each of the latest two years, derived in N.J.A.C. 11:3-16.9(c)1 above, or the estimated investment income yield for the current year,** whichever is higher.

(b) Underwriting expense provisions shall be determined as follows:

1. New Jersey specific data **from New Jersey Page 14 of the Statutory Annual Statement for the past three years** shall be used to determine the expense provision for commission and brokerage. Countrywide data for commissions and brokerage is not acceptable. **The expense provision shall be calculated as a percentage of New Jersey written premium.**

2. New Jersey specific data **from New Jersey Page 14 of the Statutory Annual Statement for the past three years** shall be used for premium taxes, licenses and fees. **The expense provision shall be calculated as a percentage of New Jersey written premium.**

3. (No change.)

4. Countrywide data for the latest three calendar years shall be used for general and other acquisition expenses, as reported in **Part 3** of the Insurance Expense Exhibit. **The expense provision shall be calculated as a percentage of countrywide earned premium.**

5. - 9. (No change.)

10. Commissions for bodily injury liability coverage for the \$0 and verbal threshold shall be equalized in accordance with [the] Exhibit C in the Appendix incorporated herein by reference.

(c) - (i) (No change.)

11:3-16.11 Rate filings reflecting assessments and surtaxes

(a) All insurers who submit a rate filing which reflects assessments or surtaxes imposed pursuant to N.J.S.A. 17:30A-8(a) and 17:33B-49, respectively, [or amounts paid to the Market Transition Facility] shall submit such rate filing independently of any prior approval rate filing submitted pursuant to N.J.A.C. 11:3-16.6.

(b) Any insurer desiring to modify its rates to reflect assessments or surtaxes imposed pursuant to N.J.S.A. 17:30A-8(9) and 17:33B-49, respectively, [or amounts paid to the Market Transition Facility] shall provide the following information in support of its application:

1. (No change.)

2. A copy of [the statutory property and casualty] **New Jersey Page 14 of the**

Statutory Annual Statement, [Exhibit of Premiums and Losses (page 14) for New Jersey] for each of the most recent 10 years. The insurer shall also file information combining this data for each of the most recent 10 years for all states and the District of Columbia, if applicable, in which the insurer is authorized to transact business; and shall provide a list of these jurisdictions;

3. The following data for all of its insurance affiliates for each of the most recent 10 years on a Statewide and countrywide basis:

i. For property and casualty affiliates [Exhibit of Premiums and Losses (page 14) of the statutory property and casualty] **New Jersey Page 14 of the Statutory** Annual Statement;

ii. - iv. (No change.)

4. - 5. (No change.)

6. For the current year and preceding two years, a schedule of premiums, incurred losses and operating expenses by New Jersey lines of business corresponding to line items one (1) through twenty-two (22) of Part [II] **2** of the **Insurance Expense Exhibit**, (IEE). In addition, provide a schedule of operating expenses by classification corresponding to line items one (1) through twenty-two (22) of Part I of the IEE. The aggregate of expenses reported by line item must agree with the total operating expenses related to New Jersey policies reported by line of business in Part II of the IEE, (sum of lines four (4) through eight (8));

7. For each line item expenditures included in the schedule required pursuant to (b)6 above, the following:

i. A description of all allocation methodologies used to allocate corporate-wide costs (including worldwide, countrywide and [regionalwide] **region wide** costs) to New Jersey lines of business:

ii.-iv. (No change.)

8. For each New Jersey line of business (including private passenger automobile),
the following:

i. - ii. (No change.)

iii. The [square feet] **area** of office space dedicated to the line of business
(excluding allocations of corporate or administrative office space);

iv. - vii. (No change.)

9. - 14. (No change.)

(c) and (f) (No change.)

Exhibit A

Prior Approval Filings

Company/Group: _____

Company File No.: _____

Section	Item	Page #
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1) Filing Requirement

16.3(e)	Filing Source Document MARS001	
16.3(f)	Certification of compliance (exact text in regulation) signed by officer	
16.3(g)	Filing submitted in three-ring binder, 8½ x 11 pages, printed on one side and numbered, three copies of filing	Yes / No
16.3(h)	Filer's identifying information at top of each page	Yes / No
16.3(i)	All data reported on direct basis exclusive of reinsurance	Yes / No
16.3(j)	All data from voluntary market only	Yes / No
16.6(a)1	<ul style="list-style-type: none"> • Cover letter notifying DOBI of intention to modify rates under prior approval procedure • Proposed effective date • Name/Telephone/Address of Company officer to whom inquiries about the filing may be directed 	_____
16.6(a)2	This checklist	
16.6(a)3	Appendix Exhibit E	
16.6(a)4	Narrative overview	
16.6(a)8	(Required only if at least 20,000 exposures) Data disk or CD-ROM in MS Excel 97 format	Yes / N/A

2) Premium and Loss Data - All data must be at total limits and/or basic limits, and must be consistent throughout the filing. All data is to be provided by coverage by accident year for each of the latest three years.

16.8(a)1	<ul style="list-style-type: none"> • NJ direct earned premium (or loss cost) at present rates • Method Used: On-Level (OL) or Extension of Exposures (EOE) • Rate level history • Underlying calculations with supporting documentation and sample calculation 	OL / EOI
16.8(a)2i	NJ direct earned exposures	
16.8(a)2ii	NJ direct incurred losses	
16.8(a)2iii	Applicable loss development factors (age-to-ultimate)	
16.8(a)2iv	NJ direct paid or incurred defense & cost containment Expenses (ALAE)	
16.8(a)2v	Incurred adjusting & other expenses (ULAE), on countrywide basis as reported in IEE	

16.8(a)2vi	Ultimate incurred losses and LAE	
16.8(a)2vi i	Trend factors	
16.8(a)2vi ii	Trended ultimate incurred losses and LAE	
16.8(a)3	(Required only if losses are separated into catastrophe and non-catastrophe) <ul style="list-style-type: none"> • Clear description and justification of the standard used. • At least 10 years used to determine catastrophe load • Explanation if database used for catastrophe load is different from that used for rate level change 	_____ _____ _____
16.8(a)4	(Required only if territorial factors are changing) <ul style="list-style-type: none"> • Territorial rate indications 	
16.8(a)5	(Required only if classification factors are changing) <ul style="list-style-type: none"> • Classification differentials information, relative loss ratios by class 	
16.8(a)6	For all incurred LAE data contained in the filing, show the related incurred losses used to determine any LAE loadings.	
16.8(a)7	(Required only if tier relativities are changing) <ul style="list-style-type: none"> • Tier differentials information, relative loss ratios by tier 	
16.8(a)8	Earned premium at present rates with and without expense fees	
16.8(a)9	Appendix Exhibit I, Written Exposures / Primary Classification (Pleasure use calculation)	
16.8(a)10	Primary Classification Factors used to determine rates	
16.8(b)	If Percentage of Pleasure Use is greater than the mean established, a written explanation of why.	

3) Credibility

16.8(d)1	All data and worksheets used and judgements made	
16.8(d)2	Description of derivation methodology	
16.8(d)3	Description of application of the methodology to this filing	

4) Loss Development Factors (this section required only for filers with at least 0.5% of NJ market)

16.8(e)1I	All data and worksheets used and judgements made	
16.8(e)1ii	Description of derivation methodology	
16.8(e)1iii	Description of application of the methodology to this filing	

5) Loss Development Triangles - All data must be at total limits and/or basic limits, and must be consistent throughout the filing.

16.8(e)2	(Required only if at least 0.5% of NJ market) Paid Loss Development Triangles for the last 10 accident years for annual evaluation dates from 15 months to ... <ul style="list-style-type: none"> • BI: 123 months • PD: 75 months • UM/UIM: 123 months • PIP: 123 months • PIP losses capped at \$75,000 	_____ _____ _____ _____
		Yes / No

	<ul style="list-style-type: none"> • Collision: 51 months • Comprehensive: 51 months • 3/5/9 year average age-to-age and age-to-ultimate factors for above 	_____
16.8(e)3	Information in e(2) above for incurred losses	
16.8(e)4	Information in e(2) above for either paid or incurred defense and cost containment expense (ALAE)	
16.8(e)5	(Required only if at least 0.5% of NJ market) Information in e(2) above for paid claim counts	
16.8(e)6	(Required only if at least 0.5% of NJ market) Information in e(2) above for incurred claim counts	
16.8(e)7	(Required only if at least 0.5% of NJ market) A statement regarding any changes in the filer's case loss reserving practices in the last 5 years.	

6) Loss Trend

16.8(f)1	(Required only if at least 0.5% of NJ market) <ul style="list-style-type: none"> • Internal loss trend data on a paid basis (incurred basis optional), separately for frequency and severity for latest available 5 rolling years on a quarterly year ending basis, for all coverages • PIP losses limited to \$75,000 • Comp./Coll. shown at or adjusted to (with explanation) \$500 deductible • Explanation for above if "Explain" chosen 	Yes / No Yes / Explain
16.8(f)2	External industry fast track data on a paid basis, shown separately for frequency and severity for latest available 5 years on a rolling quarterly year ending basis, for all coverages	
16.8(f)3	(Required only if at least 0.5% of NJ market) <ul style="list-style-type: none"> • For all trend data described above, annual T statistics and coefficient of correlation, using least-squares regression with time as the independent variable • Trend calculations for at least 2 of the following point periods: 6, 9, 12, 16, 20 • Side-by-side comparison of actual and fitted data • Calculations on both an exponential and straight line basis 	_____
16.8(f)4i	Derivation of Trend Factors – All data and worksheets used and judgements made	
16.8(f)4ii	Derivation of Trend Factors – Description of derivation methodology	
16.8(f)4iii	Derivation of Trend Factors – Description of application of the methodology to this filing	
16.8(f)5	Information (including studies, analyses, and fact sheets) of effects of the following: <ul style="list-style-type: none"> • Changes in seatbelt use • Use of passive restraint systems (e.g. air bags) and safety and anti-theft devices such as anti-lock brakes and traction control • Changes in the drinking age • Changes in price/amount of fuel purchased • Changes in average distance driven 	_____

	<ul style="list-style-type: none"> • AICRA of 1999 • Primary Seat Belt Law of 2000 • Graduated Licensing Law of 2001 • Other changes 	<hr/> <hr/> <hr/>
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7) Information in Filing

16.8(g)1	Data on the mix of written exposures by length of policy for each of the last 3 years, including written exposures and written premium (or loss cost)	
16.8(g)2	<ul style="list-style-type: none"> • Trend in average model year and symbol relativities for comprehensive and collision coverages • Explanation of method of calculation • All intermediate calculations • Average model year and symbol for each of the last five years • Distributions of written exposures by age/model year and symbol 	
16.8(g)3	Most recent 5 year history of the distribution by deductible amount of the written exposures and written premium (or loss cost) for comprehensive and collision coverages	
16.8(h)	Limitations on filing (state if none)	

8) Indication

16.8(i)	Overall Statewide change indicated by coverage	
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9) Expenses

16.9(a)1I	Expense Provisions – All data and worksheets used and judgements made	
16.9(a)1ii	Expense Provisions – Description of derivation methodology	
16.9(a)2i	Average incurred expenses per exposure for last 3 calendar years for Commission & Brokerage expenses from NJ Page 14	
16.9(a)2ii	Average incurred expenses per exposure for last 3 calendar years for Other Acquisition Expenses from Part 3 of IEE	
16.9(a)2iii	Average incurred expenses per exposure for last 3 calendar years for General Expenses from Part 3 of IEE	
16.9(a)2iv	Average incurred expenses per exposure for last 3 calendar years for Taxes, Licenses, and Fees from NJ Page 14	
16.9(a)3	Compliance with N.J.S.A. 17:29A-37	
16.9(a)4	Data does not include LAD fees or AIRE information	Yes / No

10) Proposed Rates

16.9(b)1	Proposed rates (or loss costs) for each territory and coverage together with their derivation.	
16.9(b)2	<p>Compliance with N.J.S.A. 17:29A-36:</p> <ul style="list-style-type: none"> • Rate classification definitions uniform Statewide • Auto insurance rate charged for any class not greater than 2.5 times the rate for the base class • Calculation that the base rate in any territory is not greater than 35% above Statewide average base rate, by coverage (required even if not changing) 	<p>Yes / No</p> <hr/> <hr/>

	<ul style="list-style-type: none"> Calculation that the rate for senior citizens (65+) is not greater than 25% above Statewide average for that group, by coverage (required even if not changing) 	
16.9(b)3	Comparison of average Statewide variable rates, expense fees, average current premium, average proposed premium, and number of exposures, by coverage.	
16.9(b)4	Rating Examples using criteria from most recent Annual Premium Survey	

11) Investment Income and Profit & Contingency Provision

16.9(c)1	Amount of investment income earned on loss, LAE, and unearned premium reserves in relation to earned premium for private passenger automobile insurance in NJ calculated for each of the last two years and estimated for current year, calculated in detail including the amount of composite reserves of each type at the beginning and end of each year.	
16.9(c)2	Cash flow pattern from policy inception date until receipt of premium, showing both premium and installment premium, by coverage.	
16.9(c)3	Cash flow pattern from policy inception date for <ul style="list-style-type: none"> Commission and brokerage Other acquisition expenses General expenses Assessments Premium taxes, licenses, and fees Any other expense payments 	<hr/> <hr/> <hr/> <hr/> <hr/>
16.9(c)4	Cash flow pattern from policy inception date for <ul style="list-style-type: none"> Loss ALAE ULAE 	<hr/> <hr/>
16.9(d)1	Identification of all statistical plans used or consulted	
16.9(d)2	Certification that data correctly collected	
16.9(e)	Rate of return on equity capital and on total assets given the selected underwriting profit and contingency provision calculated in 16.10(a)1, showing the derivation of all factors used to produce the calculation.	
16.9(f)1	Amount of finance and other miscellaneous charges collected in NJ.	
16.9(f)2	Description of all products and services supplied or received in transactions between the filer and a parent company, a wholly owned subsidiary, or an affiliated company (state if none)	
16.10(a)1	Calculation of profit and contingency provision using the Clifford Formula, based on the cash flow method or another method provided	
16.10(a)2	(Required only if alternative to cash flow method used) Deductions made for prepaid expenses with documentation (state if none)	
16.10(a)3	(Required only if alternative to cash flow method used) Deductions made for delayed remission of premiums with documentation (state if none)	
16.10(a)4	(Required only if alternative to cash flow method used) Ratio of unearned premium reserves to premium obtained from NJ Page 14 and calculated as described	

16.10(a)5	(Required only if alternative to cash flow method used) Ratio of loss reserves to incurred losses derived from NJ Page 14 and calculated as described	
16.10(a)6	(Required only if alternative to cash flow method used) Ratio of LAE reserves to loss reserves derived from Part 3A of the Statutory Annual Statement and calculated as described	
16.10(a)7	Expected L+LAE Ratio = 1 - Underwriting Expense Ratio - Underwriting Profit & Contingency Provision	
16.10(a)8	Interest Rate used is larger of average of last two years' investment income yield or estimated yield for current year, calculated in 16.9(c)1	

12) Expenses and Other Information

16.10(b)1	Commission & Brokerage expense provision derived from NJ Page 14	
16.10(b)2	Premium Tax expense provision derived from NJ Page 14	
16.10(b)3	NJ Specific Data used for Assessments	
16.10(b)4	General & Other Acquisition Expenses derived from Part 3 of IEE	
16.10(b)5	Trend of General & Other Acquisition expense using All Items CPI and monthly average weekly wages for fire and casualty insurance employees (50/50 weighting)	
16.10(b)6	Expenses Capped by Appendix Exhibit H Calculation (available on DOBI web site)	
16.10(b)7	Load for UCJF is most recent value established by Commissioner	
16.10(b)8	Excluded Expenses (state if none)	
16.10(b)9	Expense dollars excluded in accordance with (b)8 or justification provided for use	
16.10(b)10	Bodily Injury Liability Zero/Verbal Threshold Commissions equalized using Appendix Exhibit C	
16.10(c)1	Accident Year data used for liability coverages	Yes / No
16.10(c)2	Most recent Accident Year data ends no more than 15 months before submission date of filing (Accident Year need not end on December 31).	Yes / No
16.10(c)3	PIP experience capped at \$75,000	Yes / No
16.10(d)1	Frequency & Severity calculated separately in loss trends	Yes / No
16.10(d)2	Adjustment for Symbol Drift and Model Year Rating	Yes / No
16.10(e)	Filer demonstrates that a reasonable rate of return on its capital investment will result from proposed rates	
16.10(f)	(Optional) Alternate rate making procedure	
16.10(g)1	Appendix Exhibit J, Rate Pursuit Questionnaire	
16.10(g)2	Sample New & Renewal Insurance Applications	

13) Filings Reflecting Assessments and Surtaxes (only required if filing under this section)

16.11(b)2	NJ and CW Page 14 for the last 10 years, with list of states included in CW	
16.11(b)3	For all affiliates, 10 years of the following: • P&C affiliates: NJ Page 14	

	<ul style="list-style-type: none"> • Title affiliates: Operations and Investment Exhibit (Page 4) and Schedule T • L&H affiliates: Page 3, Page 5, Page 7 & 7A 	
16.11(b)3iv	Estimate of amount of business in other lines produced by the synergistic effects of insurer writing PPA insurance	
16.11(b)4	Appendix Exhibit F	
16.11(b)5	Appendix Exhibit G	
16.11(b)6	For current and preceding 2 years, schedule of premiums, incurred losses, and operating expenses by NJ lines of business from lines 1-22 of IEE Part 2, and a schedule of operating expenses for lines 1-22 of IEE Part 1 (aggregate of expenses by line item must agree with total from lines 4-8 of IEE Part 2)	
16.11(b)7	<p>For each line item expenditure in (b)6</p> <ul style="list-style-type: none"> • Description of all allocation methodologies used to allocate corporate-wide costs (including worldwide, countrywide, and region wide) to NJ • Description of all allocation methodologies used to allocate operating expenses to NJ PPA liability and physical damage to all other NJ lines • Explanation for any changes in allocation methodologies between years • For each operating expense classification by each NJ line of business, schedule which shows the expenses directly charged to a line of business, and indirect expenses allocated to various lines of business using reasonable methodology 	
16.11(b)8	<p>For each NJ line of business (including PPA):</p> <ul style="list-style-type: none"> • Number of named insureds • Number of employees directly dedicated to the line of business • Area of office space dedicated to the line of business (excluding allocations of corporate or administrative office space) • Hours of data processing time charged • Volume of exposures • Number of policies in force • Number of claims reported during each of the three years requested 	
16.11(b)9	Internal accounting control report	
16.11(b)10	List of internal audits in current years	
16.11(b)11	Copies of internal audit reports issued during current year with responses	
16.11(b)13	Reason why assessment should be included in PPA rates	
16.11(e)	Formula believed appropriate for determining return required, with supporting analysis and data fully explaining why formula should be utilized	

APPENDIX

EXHIBIT C

Worksheet to Determine Zero Threshold Premium and Commission for BI and UMBI

Page 1 of 4

Insurance Group Name _____

Insurance Company Name _____

Group NAIC Number _____

Company NAIC Number _____

[This is a filing for (check one):

BI _____

Flex Rating Increase _____

UMBI _____

Prior Approval Increase _____

Prior Approval Decrease _____]

BEFORE COMPLETING THIS FORM, PLEASE READ THE INSTRUCTION ON PAGE 4.

Section A

Section A develops the revised verbal threshold base rate after the rate change.

Item 1A: Current verbal threshold base rate

State the territory number _____

Number of exposures _____

Percent of statewide total _____

Item 2A: Verbal threshold rate change, expressed as a multiplicative factor

Item 3: Revised verbal threshold base rate _____

(Item 1A multiplied by Item 2A_

NOTE: Item 3A is the new verbal threshold base rate after the rate change.

Section B

The dollars of commission for the verbal threshold base rate and the zero threshold base rate are to be identical after the rate change. Section B develops the dollars of commission which can be included in the rate. The insurer may pay a higher commission. However, the portion of the commission above the amount stated in Item 2B is not to be included in the rate and is not to be charged to the policyholder.

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Item 1B: Current filed and approved commission rate for the VERBAL threshold base rate, expressed as a decimal and rounded to the third decimal place _____

State the relevant [DOI]**DOBI** filing number: _____

Item 2B: Dollars of commission for the increased/decreased verbal threshold base rate
(Item 3A multiplied by Item 1B) _____

NOTE: Item 2B is the dollars of commission for the verbal threshold base rate after the rate change, and it is also the dollars of commission for the zero threshold base rate after the rate increase/decrease.

Section C

Section C develops the zero threshold rate change.

For a prior approval rate increase, or a flex rating increase, complete Item 1C, Item 2C, Item 3C, and Item 4C. For a rate decrease, complete Item 5C, Item 6C, Item 7C, and Item 8C.

COMPLETE ITEMS 1C, 2C, 3C, AND 4C ONLY FOR A PRIOR APPROVAL RATE INCREASE, [OR A FLEX RATING RATE INCREASE,] BUT NOT FOR A RATE DECREASE.

Item 1C: Item 2A minus 1.000

Item 2C: Item 1C times 2.000

Item 3C: Item 2C plus 1.000

Item 4C: Zero threshold rate increase expressed as a multiplicative factor

NOTE: Item 4C is the amount the insurer selects as the zero threshold rate increase. However, for a flex filing rate increase, Item 4C cannot be smaller than Item 3C.

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COMPLETE ITEMS 5C, 6C, 7C, AND 8C ONLY FOR A PRIOR APPROVAL RATE DECREASE, AND NOT FOR A PRIOR APPROVAL RATE INCREASE[, AND NOT FOR A FLEX RATING INCREASE].

Item 5C: 1.000 minus Item 2A

Item 6C: Item 5C divided by 2.000

Item 7C: 1.000 minus Item 6C

Item 8C: Zero threshold rate decrease expressed as a multiplicative factor

NOTE: Item 8C is the amount the insurer selects as the zero threshold rate decrease.

Section D

Item 5D of Section D is the zero threshold base rate with the rate increase/decrease.

Item 1D: Current zero threshold base rate

Item 2D: Filed and approved dollars of commission for the current zero threshold base rate

State the relevant DOBI filing Number:

Item 3D: Current zero threshold base rate excluding commission (Item 1D minus Item 2D)

Item 4D: Increased/decreased zero threshold base rate, excluding commissions (Items 3D multiplied by Item 4C, or Item 3D multiplied by Item 8C, as appropriate.)

Item 5D: Increased/decreased zero threshold base rate, including commissions (Items 2B plus Item 4D)

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Instructions:

1. Data are for base rates for the territory with the largest number of the filer's exposures. Following Item 1A state the number of the territory in question; the number of exposures in

- that territory; and the portion of the statewide exposures for the filer in that territory.
2. File one worksheet for BI and one for UMBI.
 3. For combined single limits, fill out the worksheets using the BI and UMBI portions of the rate.
 4. Item 2A is to be expressed as a decimal and rounded to the third digit. For example, if the rate change is an increase of 2%, Item 2A is 1.020. As another example, if the rate change is a decrease of 3.2%, then Item 2A is 0.968.
 5. The commission rate in Item 1B to be expressed as a decimal and rounded to the third digit. For example, if the commission rate is 15.3%, Item 1B is 0.153. As another example, if the commission rate is 19%, Item 1B is 0.190.
 6. The commission allowable in the zero threshold base rate is Item 2B. The insurer may pay a higher commission. However, the portion of the commission above the amount stated in Item 2B is not to be included rate and is not to be charged to the policyholder.
 7. Following Items 1B and 2D, provide the [DOI]**DOBI** filing number of the filing in which the commission rate was approved.

EXHIBIT E

	Percentage Change	Dollar Effect	Latest Year Earned Exposures	Latest Year On-Level Earned Premium
Bodily Injury				
Verbal	_____	_____	_____	_____
Zero	_____	_____	_____	_____
Property Damage	_____	_____	_____	_____
Personal Injury Protection	_____	_____	_____	_____
Uninsured Motorists	_____	_____	_____	_____
Verbal	_____	_____	_____	_____
Zero	_____	_____	_____	_____
Total Liability	_____	_____	_____	_____
Comprehensive	_____	_____	_____	_____
Collision	_____	_____	_____	_____
Total Physical Damage	_____	_____	_____	_____
Overall Total	_____	_____	_____	_____
Expense Fees	Current	Proposed	Current	Proposed
Single Limit Liability	_____	_____	_____	_____
Bodily Injury	_____	_____	_____	_____
Property Damage	_____	_____	_____	_____
Personal Injury Protection	_____	_____	_____	_____
Comprehensive	_____	_____	_____	_____
Collision	_____	_____	_____	_____

EXHIBIT H

Calculation of Maximum on Combined Commission and Brokerage, other Acquisition Expense and General Expenses

The maximum expense shall be calculated as a weighted average of those companies in the 20 largest private passenger automobile companies or groups in this State that use the same marketing method as the filer.

The Department will compile the list of the 20 largest private passenger automobile companies or groups on June 30 of each year based on the most recent annual premium volume.

The companies and groups on the list shall be divided into one of the three marketing methods: (1) Independent Agents; (2) Captive Agents; or (3) Direct Writers. The designation of marketing method shall be based on the primary designation for the company or group in the A.M. Best Report (Property/Casualty). The list shall be posted on the Department's web site and made available to filers on request.

The provision for commission and brokerage expense shall be calculated as a percentage of New Jersey written premium, as stated on New Jersey Page 14 of the Statutory Annual Statement for each company or group used in the calculation. The provision for general and other acquisition expense shall be calculated as a percentage of countrywide earned premium, as stated on Part 3 of the Insurance Expense Exhibit for each company or group used in the calculation.