



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**Department of Business Regulation  
INSURANCE DIVISION  
233 Richmond Street, Suite 233  
Providence, RI 02903 – 4233  
Telephone No. (401) 222-2223  
www.dbr.state.ri.us**

**FAX No. (401) 222-5475  
TDD No. (401) 222-2999**

June 4, 2008

Laura Backus Hall  
State Relations Executive  
NCCI  
1493 Maple Hill Road  
Plainfield, VT 05667

Re: NCCI 2008 Rhode Island Advisory Loss Cost Filings

Dear Ms. Hall:

On December 18, 2007 NCCI made a filing requesting an overall decrease in advisory loss costs of -6.3% effective June 1, 2008. On January 30, 2008 NCCI filed an Experience Rating and Schedule Rating Analysis that has been considered in conjunction with the advisory loss costs filing.

The Rhode Island Department of Business Regulation (“the Department”) adopted a new procedure to evaluate this filing. Rather than holding a formal proceeding under the Administrative Procedures Act (“APA”) as had been done in the past, the Department instituted a review procedure which allowed for comment from interested parties and the public. The goal of this new procedure is to reduce administrative costs to filers (thereby reducing costs to policyholders), and to increase the efficiency of the review and approval process while still preserving the protections afforded by a full hearing process.

The Department posted a notice on its website and in the Providence Journal soliciting public comment on the filing. No public comment was received. The Attorney General conducted discovery concerning the filing and provided the Department with written recommendations on May 14, 2008. NCCI responded to those recommendations on May 21, 2008. The Attorney General responded with additional comments on May 28, 2008.

This correspondence represents the Department’s decision on this filing. Any person aggrieved by this Decision should notify the Department within thirty (30) days to request a “contested case” proceeding pursuant to R.I. Gen. Laws § 42-35-9.

The issues considered by the Department and the resolution determined with regard to this filing are as follows.

#### Selected Adjustment to Indemnity Loss Development Factors (“LDFs”)

The Attorney General argued that the adjustment to indemnity LDFs selected by NCCI to reflect the impact of the 1992 reforms was inadequate. The Attorney General’s position is that due to changes in payment patterns, NCCI’s adjustment factor of .500 applied to policy years 1992 and prior is too large, and loss development factors should be lowered even more. The adjustment factor is applied to the LDF minus 1.000. For example, if the original LDF was 1.050, and the adjustment factor was 0.500, the adjusted factor would be 1.025. If the adjustment factor was 0.300, the adjusted factor would be 1.015. The Attorney General indicates that adoption of its methodology, rather than that used by NCCI, would change the proposed decrease in advisory loss costs from an average of -6.3% to an average of -6.7%.

We believe the AG’s argument is flawed since it relies on extremely old loss development factors in its comparison to post reform factors. If the comparison is restricted to the last five years prior to the reform, NCCI’s adjustment factor of .500 seems not only reasonable, but possibly too low.

#### Selected Medical and Indemnity Annual Trends

The Attorney General argues that NCCI’s selection of indemnity and medical trends are flawed. With regard to the last filing, the Attorney General made a similar argument and indicates that actual results show that the loss cost trend selected by NCCI last year was too high. The Attorney General suggests alternative methodologies that would result in an indemnity trend of -2.6% compared to NCCI’s request of -2.0% and a medical trend of 0.0% compared with NCCI’s request of +1.5%. The Attorney General indicates that adoption of its suggested trends, rather than those used by NCCI, would change the proposed decrease in advisory loss costs from an average of -6.3% to an average of -10.2%.

There are many reasonable methodologies for deriving trend factors. While the Attorney General has a different opinion from NCCI, we believe that they have not demonstrated that what NCCI proposes is unreasonable. NCCI’s selected trend for indemnity is approximately the same as the countrywide average, while the selected medical trend is actually below the countrywide average. Both selected trends are below what was approved in NCCI’s last rate filing.

For indemnity, in the frequency/severity discussion, the Attorney General has proposed an annual severity trend of +1.2%, which is identical to NCCI’s selection. For frequency, the Attorney General has selected -4.0% as opposed to NCCI’s -3.6%. Since these selections are so close, we find no compelling evidence to overrule NCCI’s selection. In

addition, Accident Year 2006 results, discussed below, will have an impact on our decision.

For medical, the Attorney General makes a convincing case for lowering NCCI's trend factor of +1.5%. On level loss ratios have been fairly flat since Policy Year 2001. However, we find a trend of 0.0% as selected by the Attorney General to be unreasonably low. We believe that a medical trend factor of +1.0% is reasonable.

Accident Year 2006 shows on level loss ratios higher than Policy Year 2005 for both indemnity and medical. We interpret this as meaning we should be reluctant to reduce trends too much. The indemnity loss ratio is 0.512 or 0.527 depending on the paid loss development methodology that is applied. The medical loss ratio is 0.289 or 0.290 depending on the loss development methodology that is applied. This compares to Policy Year 2005 on level loss ratios of 0.500 and 0.279 for indemnity and medical respectively.

#### Statewide Excess Ratio Factor

The Attorney General takes issue with NCCI's selected Statewide Excess Ratio ("SER") Factor that is used to convert limited losses to an unlimited basis. The Attorney General indicates that adoption of its alternative methodology, rather than that used by NCCI, would change the proposed decrease in advisory loss costs from an average of -6.3% to an average of -7.4%.

As we found in prior years, we believe that NCCI's method for dealing with large losses is reasonable, and reasonably applied. The Attorney General raises no new issues that would make us change our position.

#### Loss Adjustment Expense

The Attorney General takes issue with NCCI's method of calculating Loss Adjustment Expense. The Attorney General indicates that adoption of its alternative methodology, rather than that used by NCCI, would change the proposed decrease in advisory loss costs from an average of -6.3% to an average of -6.9%.

The Attorney General raises two different issues. The first relates to the comparison of the data in this year's filing with the data in last year's filing. We find this argument unpersuasive. NCCI's explanation shows that the use of an Accident Year methodology and a change in the companies included in the analysis accounts for the variation. The second issue relates to the number of years that should be averaged in calculating the Loss Adjustment Expense provision. NCCI uses a two year average, while the Attorney General proposes a five year average. The argument now is simply that of stability vs. responsiveness. We note that NCCI used a two year average in last year's filing, and we do not see a sufficient reason to change this approach. Therefore, we conclude that NCCI's method for calculating the Loss Adjustment Expense provision is reasonable.

Other Issues

In last year’s filing, NCCI was directed to analyze the thresholds for experience and schedule rating. They made an interim report on January 30, 2008. This report discussed how the schedule rating threshold could be varied by the Department, without impacting experience rating. Experience rating is currently undergoing an in depth countrywide review by NCCI and they suggested that decisions on the eligibility threshold for experience rating in Rhode Island should wait until the analysis is completed. Since the threshold is similar to that of its New England neighbors, we will wait for the results of the in depth study.

Conclusion

The following table shows for each of the issues raised by the Attorney General, the Attorney General’s proposal, NCCI’s proposal, and the Department’s findings.

| <b>Table 1<br/>Comparison of Contested Issues</b> |                |                |                   |
|---|----------------|----------------|-------------------|
|   | <u>AG</u>      | <u>NCCI</u>    | <u>Department</u> |
| Indemnity Loss Development Adjustment             | Various        | 0.500          | 0.500             |
| Indemnity Trend                                   | -2.6%          | -2.0%          | -2.0%             |
| Medical Trend                                     | 0.0%           | +1.5%          | +1.0%             |
| Statewide Excess Ratio Methodology                | Do Not Use     | As Filed       | As Filed          |
| Loss Adjustment Expenses                          | 5 Year Average | 2 Year Average | 2 Year Average    |

The Department hereby approves an overall decrease in advisory loss costs for use in Rhode Island beginning June 1, 2008 of 7.2% consistent with the discussion in this correspondence. NCCI is hereby directed to make a compliance filing consistent with this Decision no later than June 16, 2008. NCCI shall issue a Circular advising member insurers that insurers must notify the Department by August 18, 2008 of the insurers intention to adopt or not adopt these advisory loss costs including a basis for that position. Further, for insurers that adopt NCCI’s advisory loss costs and are not changing their Loss Cost Multiplier, an explanation as to why no change is contemplated is required, including statistical support to show that the loss experience is lower/higher than that of industry. For insurers adopting NCCI’s advisory loss costs with modifications to their Loss Cost Multiplier, the insurer must complete the requisite advisory loss cost adoption form along with the RI Rate Procedural Information Summary document. All notices and filings must be submitted through SERFF. All requisite forms are found in SERFF.

If NCCI or any aggrieved person wishes to appeal this Decision, a *de novo* appeal will be provided upon receipt of correspondence requesting the same. The *de novo* appeal will be conducted in accordance with R.I. Gen. Laws § 42-35-9.

Very truly yours,

A handwritten signature in black ink, appearing to read "Paula M. Pallozzi". The signature is written in a cursive style with a large initial "P" and "M".

Paula M. Pallozzi  
Chief Property & Casualty Insurance Rate Analyst

- cc. Joseph Torti III, Associate Director and Superintendent of Insurance  
Elizabeth Kelleher Dwyer, Esq.  
Genevieve Martin, Assistant Attorney General  
Brian Spero, Esq., Beacon Mutual Insurance Company  
James Rosati, Beacon Mutual Insurance Company