STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Department of Business Regulation
INSURANCE DIVISION
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April 15, 2010

Laura Backus Hall
State Relations Executive
National Council on Compensation Insurance, Inc. (NCCI)
1493 Maple Hill Road
Plainfield, VT 05667

Re: NCCI 2010 Rhode Island Advisory Loss Cost Filing
Request for Additional Information

Dear Ms. Hall:

The Rhode Island Department of Business Regulation ("the Department") received your request for additional information pertaining to the decision made on NCCI's 2010 Rhode Island Advisory Loss Cost filing (letter dated April 9, 2010). Specifically, your inquiry focuses on the selected indemnity paid loss development factors ("LDFs") for the 1st through 19th report.

In summary, NCCI suggested using a 3-year average LDF for indemnity paid losses; the Attorney General suggested using a 5-year excluding high/low average for indemnity paid losses. The Department has concluded that the 5-year excluding high/low average indemnity LDF is appropriate.

NCCI supports its 3-year average selection by citing the ruling in a 2006 rate filing, where the Department instructed NCCI to use a 3-year average LDF, instead of what it had been using historically (5-year excluding high/low average).

In the 2006 rate filing, the historical loss development illustrated a pattern where the most recent accident year had the lowest LDF out of the 5 most recent accident years. This occurrence appeared consistently up to the 7th report as well as in the majority of the subsequent report dates. At that time, NCCI's selection of the 5-year excluding high/low average effectively excluded the lowest factor from the average. NCCI argued that the 5-year excluding high/low approach removed fluctuation and stabilized the indication over the long term. The Department concluded, in support of the Attorney General, that the 3-

year average for indemnity paid LDFs was appropriate, in order to incorporate the apparent downward trend in development.

The 2006 decision relating to the appropriate LDF average selection was based on unique circumstances that are not duplicated in this 2010 filing. The attached exhibit illustrates a comparison of the patterns under consideration. The Department believes that the 5-year excluding high/low approach is appropriate as the data appears to be random (i.e., it is not excluding factors that show an obvious pattern) and this selection, in general, would remove fluctuations and stabilize the results, as historically agreed by the NCCI.

In the past, NCCI has generally considered the 5-year excluding high/low average to be appropriate for both paid indemnity and medical factors. The Department believes that this practice is generally reasonable, unless there are obvious trends in the data, suggesting that another average may be more appropriate. Note that the circumstances of each filing need to be considered for the best possible result.

We are looking forward to learning of NCCI's next steps regarding the Department's decision.

Sincerely,

Paula M. Pallozzi

Paula M. Pallozzi
Chief Property & Casualty Insurance Rate Analyst

Enclosure

cc: Joseph Torti III, Superintendent of Insurance
Elizabeth Kelleher Dwyer, Esq.
Genevieve Martin, Assistant Attorney General
Brian Spero, Esq., Beacon Mutual Insurance Company