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BULLETIN 97 - 4

**TO: All Insurers Admitted to do Business in the Commonwealth of Kentucky FROM: George Nichols III
Commissioner DATE: April 25, 1997 RE: Form, Rate, and Rule Filings**

This Bulletin supersedes Bulletin 95-19 regarding Form, Rate and Rule filings and Bulletin 97-2 regarding Workers' Compensation filings only. Attached are forms F-1A & B, F-2, S-1, S-2, S-3, LC-1, LC-2, and WC-1 for use in making Form, Rate, and Rule filings with the Property and Casualty Division of the Kentucky Department of Insurance. The use of these forms and procedures begins May 1, 1997. Please discard all Edition 1/96 synopsis forms and use only the 4/97 versions.

GENERAL FILING INSTRUCTIONS : A filing will not be reviewed if the filer has not specifically adhered to the following instructions. Any incomplete filing will be disapproved and returned to the filer. All filings must provide:

1. Two (2) full document sets, with three (3) cover letters, for each filing per insurer (or other entity) for which the filing is being made (see reverse side of this form);
2. Each document set shall contain the appropriate combination of Kentucky Filing Synopsis Forms (S-1,S-2 andS-3) and a Forms Index Sheet(F-2) where more than one form/endorsement is submitted;
3. The first page of the document set for each filing, per insurer (or other entity), shall be a completed Face & Verification Form(F-1A). Rate and Rule Filings may be combined or filed separately;
4. Fees sufficient to pay for each filing per insurer (or other entity) shall be enclosed. Fees may be combined into a single check and attached to the Face & Verification Form(F-1A);
5. A self-addressed, stamped envelope shall accompany the filing to facilitate the return of the acknowledgment/approval/disapproval copy of the company's letter; and
6. A filer may include in a filing any number of forms or documents filed together on a particular date pertaining to a **single line of insurance**. All Form Filings must be made separately from Rate and Rule Filings;
7. Any corrections to a previously submitted approved/ acknowledged/ or disapproved filing must be made into a complete new filing with filing fee and Form **F-1A** included.
8. The attached forms may be copied for use with filings. All copies must be full size (8 1/2 x 11), including the box on the **F-1A** for "Department Use Only". Please note that some pages in this mailing contain information on the reverse side.

FILING CHECKLIST

Filings must be submitted with two (2) full document sets and three (3) cover letters, per company, per line of insurance. The extra copy of the letter will be returned to your company with the approved/acknowledged/disapproved status of the filing. Each full document set must contain the following:

1. The Department's form F-1A P&C (4/97), properly completed (per company, per line of insurance).

2. The company's cover letter setting forth the requested changes.

3. The WC-1 P&C (Loss Cost Multiplier Revision Worksheet) for all rate submissions. (Workers Compensation only)

4. The filing synopsis forms (S-1, S-2, S-3) and loss cost multiplier forms (LC-1, LC-2), as necessary.

5. The F-2 P&C (Forms Index Sheet, required for forms filings only) for all forms submitted (properly completed for each column).

6. The company's documents to be revised.

7. The proper filing fees (subject to retaliatory fees).

8. One self-addressed, stamped envelope, per filing.

PERSONAL LINES AND DESIGNATED COMMERCIAL LINES : All Personal Lines and Designated Commercial Lines, Rates, Manuals and Underwriting Rules are to be filed by one of the appropriate methods.

* **"Use and File"**: In a competitive market, companies are required to file, not later than fifteen (15) days after their effective date, for any revisions which increase or decrease the rates of any classification of risks within any rating territory 25 % or less within a 12 month period, along with any supplementary rate information. The initial entrance of a new product may utilize this method.

* **"Prior Approval"**: is required, pursuant to KRS 304.13-051(5), for any revisions which increase or decrease effectively the rates of any classification of risks within any rating territory more than 25% within a 12-month period (flex barrier). Complete supporting information is required. As used in the statute, rates mean the effective rates which have been derived from the base rate and anything else in manual or underwriting rules which, independently or combined, effectively determine the pretax price of a particular policy. All manuals and underwriting rules and guidelines which result in an increase or decrease of more than 25% from the existing rates are to be filed with the Commissioner and adhered to until amended, pursuant to KRS 304.13-(5). Forms are to be filed with the Commissioner under "prior approval" and adhered to until amended and approved, pursuant to KRS 304.14-120.

* **For Workers Compensation, see attached.**

DESIGNATED COMMERCIAL LINES: Pursuant to KRS 304.13-051(1) and Bulletin 92-6, the Commissioner of Insurance has designated the following lines of commercial insurance for which rate rulings are required:

- A. WORKERS COMPENSATION INSURANCE *
- B. INDEMNITY POLICIES RELATING TO AUTOMOBILE SERVICE CONTRACTS ISSUED PURSUANT TO KRS 304.5-070(1)(p) and 806 KAR 5:050.
- C. CREDIT INSURANCE OF ANY AND EVERY NATURE OTHER THAN CREDIT LIFE AND CREDIT HEALTH

NON-DESIGNATED COMMERCIAL LINES : Rates for any commercial lines of insurance not on the designated lines list need not be filed for prior approval. In accordance with KRS 304.13-041, the Commissioner has the authority to monitor the marketplace for competitiveness. Therefore, the periodic requests for rate information on non-designated lines may be made. Rules that pertain to how to formulate this rate do not need to be filed.

TITLE INSURANCE : KRS 304.22-020(2), requires insurers to file all rates with the Commissioner. They should not be excessive, inadequate or unfairly discriminatory.

USE OF ADVISORY LOSS COSTS : KRS 304.13-111 prohibits advisory organizations from filing rates or compiling or distributing recommendations relating to rates that include profit or expense (except loss adjustment expenses). KRS 304.13-121(3) permits advisory organizations to distribute pure premium data, adjusted for loss development and loss trending, in accordance with the advisory organizations' statistical plans.

So-called "loss costs" are not filed with the Department of Insurance on behalf of any insurer, but are filed solely for informational purposes. Loss costs filings are acknowledged (NOT approved) by the Department of Insurance.

The "introductory memorandum" for an advisory organization's loss cost distribution to participating insurers usually suggests appropriate uses of this information. The insurer should compare its own data to that of the advisory organization to examine the appropriateness of the various factors utilized in loss costs development and to evaluate its own experience in relation to those factors.

Consideration must be given to the flex barrier when an insurer desires to base its rates on advisory loss costs. If the adoption of advisory loss costs and modification of them by addition of expenses in combination with the insurer's underwriting rules and rating factors provided for in rating manuals cause effective rates to produce a pricing change of more than 25% in any 12-month period of time, for any particular insured, in any classification, in any rating territory, the flex barrier will be pierced and prior approval is required for all personal and designated commercial lines.

FORMS: Under KRS 304.14-120, the general rule is that all policy forms must be approved before they may be used in Kentucky. When a form filing amends, replaces, or supplements a form which has been previously filed and approved, the filing shall be accompanied by a letter of explanation from the filer setting forth all changes contained in the newly filed form. The letter of explanation shall further describe the effect, if any, the changes have upon the hazards purported to be assumed by the policy and the rates applicable to that form (see 806 KAR 14:005 Section 6).

Personal lines forms are required to comply with the readability and intelligibility standards of KRS 304.14-420 through .14-450 and 806 KAR 14:121.

As to cancellation and non-renewal, automobile liability insurance policies are required to comply with KRS 304.20-045 and 806 KAR 20:020. All other property and casualty insurance forms are required to comply with KRS 304.20-300 through .20-350 and 806 KAR 20:010. However, the statutes and regulations cited in this paragraph do not apply to policies issued through residual market mechanisms.

HB-439

We have received numerous inquiries concerning the proposed changes to the Automobile Proof of Insurance Cards cited in Bulletin 97-1. After further discussions and clarification with the Department of Transportation, the proposed changes have been modified. In an effort to assist the County Clerks with the registration and transfer process all Commonwealth of Kentucky Proof of Insurance Cards must include the names of all legal titled owners of the vehicle, if not the same as the Named Insured. Example: John Doe is the Named Insured. Jane Doe is the titled owner. The names of John & Jane Doe need to appear on the Proof of Insurance Card.

Regulation 806 KAR 39:070 (Proof of Motor Vehicle Insurance) has been revised and updated. The amendments to the regulation are currently in the process of being promulgated with the Legislative Research Commission and will be available once this process is completed.