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## Territorial Rating System for Automobile Insurance

### Sec. 38a-686-1. Definitions

As used in Sections 38a-686-1 to 38a-686-3, 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" means one private passenger nonfleet automobile insured for a twelve month period.
- (9) "Insurer" has the same meaning as provided in section 38a-1 of the Connecticut General Statutes.
- (10) "Rating organization" has the same meaning as provided in section 38a-663 of the Connecticut General Statutes.
- (11) "Advisory organization" has the same meaning as provided in section 38a-663 of the Connecticut General Statutes.
- (12) "Indicated statewide rate level change" means the premium weighted average of the indicated base rate changes.
- (13) "Indicated loss costs" means the expected loss costs per exposure unit based on actuarially adjusted historical loss data.
- (14) "Loss costs" means the portion of the premium that is applicable solely to loss, without provision for insurer, rating organization or advisory organization expenses or profits.
- (15) "Private passenger nonfleet automobile insurance policy" means an insurance policy issued for one or more private passenger nonfleet automobiles. "Private passenger nonfleet automobile insurance policy" does not include insurance policies for motorcycles, recreational vehicles or antique, rare or special interest motor vehicles.

(Effective January 1, 2012)

### Sec. 38a-686-2. Private passenger nonfleet 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, rating organization or advisory organization may group risks by geographical territories composed of one or more unique town codes. An insurer, rating organization or advisory organization 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, rating organization or advisory organization 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, rating organization or advisory organization may split the street, road or similar geographic unit into two or more segments, each of which divides two geographically configured rating territories.

sory organization shall rate the particular risk using the lower rate of the two territories. An insurer, rating organization or advisory organization shall include a complete description of each geographical territorial configuration used in its rating plan filing.

(b) **Territorial Rate Filing Procedures.** An insurer, rating organization or advisory organization's geographical rating territories and any amendments to such geographical rating territories shall be filed with the Department and shall be subject to the Department's review and approval prior to their 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, rating organization or advisory organization adopting and implementing a classification system that uses ZIP Codes to establish geographical rating territories, an insurer, rating organization or advisory organization 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, rating organization or advisory organization shall moderate indicated loss costs data with reference to the insurer, rating organization or advisory organization's statewide average loss costs by weighting the territorial indications with the statewide average as provided in subdivision (4) of subsection (b) of section 38a-686 of the Connecticut General Statutes.

(e) **Credibility.** In accordance with sound actuarial principles, an insurer, rating organization or advisory organization shall apply credibility procedures separately from the weighting procedures set forth in subdivision (4) of subsection (b) of section 38a-686 of the Connecticut General Statutes. An insurer, rating organization or advisory organization shall not use credibility adjustment procedures as a substitute for such weighting procedures in the ratemaking process. An insurer, rating organization or advisory organization shall use and apply the weighting procedures in addition to credibility adjustments.

(f) **Classification Factors.** An insurer, rating organization or advisory organization 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, rating organization or advisory organization 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, rating organization or advisory organization's actual losses or expenses.

(g) **Variable Cost Loading.** In computing individual territorial base rates, an insurer, rating organization or advisory organization shall allocate as variable expenses the items provided in, and in accordance with, subparagraph (B)(i) of

subdivision (2) of subsection (b) of section 38a-686 of the Connecticut General Statutes.

(h) **Flat Dollar Cost Loading.** In computing individual territorial base rates, an insurer, rating organization or advisory organization shall allocate as fixed expenses the items provided in, and in accordance with, subparagraphs (B)(ii) and (B)(iii) of subdivision (2) of subsection (b) of section 38a-686 of the Connecticut General Statutes.

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

(Effective January 1, 2012)

### **Sec. 38a-686-3. Private passenger nonfleet automobile rate filing submission requirements**

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

(b) **Actuarial Exhibits.** An insurer, rating organization or advisory organization 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: (A) variable expense rate; (B) flattened expense fee; and (C) 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, rating organization or advisory organization's indicated statewide rate level changes categorized by accident year and coverage. An insurer, rating organization or advisory organization may adapt the exhibits required under this subdivision to a format that reflects the insurer, rating organization or advisory organization's specific rate review process, provided such insurer, rating organization or advisory organization shall include all actuarially supported adjustments to the insurer, rating organization or advisory organization's loss experience in such exhibits.

(4) A set of exhibits showing that the insurer, rating organization or advisory organization'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, rating organization or advisory organization's individual territorial loss costs data has been moderated with reference to statewide average loss costs as specified in subdivision (4) of subsection (b) of section 38a-686 of the Connecticut General Statutes.

(6) An exhibit showing, by type of coverage, the insurer, rating organization or advisory organization's variable expense portion of premium and the flattened

expense portion of premium. The insurer, rating organization or advisory organization shall include the calculation of the flattened expense fee by type of coverage.

(7) An exhibit showing the insurer, rating organization or advisory organization'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, rating organization or advisory organization's rate filing methodology.

(8) An exhibit showing, by type of coverage, the insurer, rating organization or advisory organization'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, rating organization or advisory organization's name of the program and year used for the filing and 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: (A) bodily injury, uninsured motorist coverage and underinsured motorist coverage; and property damage liability coverages; (B) medical expense coverage; (C) comprehensive coverage; and (D) collision coverage.

(10) An exhibit showing the insurer, rating organization or advisory organization's rate order of calculation for premium determination.

(Effective January 1, 2012)