



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

In Re:)
) **DIFP Case No. 180927884H**
Travelers Rate Filing for the)
Workers' Compensation Alternative)
Residual Market)

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

This matter concerns proposed changes to the rates and rating structure to be used in the Missouri Alternative Residual Market Plan ("ARM Plan" or "Plan") for the policy period beginning January 1, 2019. The ARM Plan was created under the authority of § 287.896, RSMo, and 20 CSR 500-6.960 as a mechanism to provide workers' compensation and employer's liability insurance to applicants who are in good faith entitled to such coverage but who are unable to purchase such coverage by ordinary methods through the voluntary market. The ARM Plan began operation on July 1, 1995, and is currently administered by Travelers Property Casualty Company of America ("Travelers"), which was selected by the Department of Insurance, Financial Institutions and Professional Registration ("Department") as the Contract Carrier following an Invitation For Bid issued in January of 2015.

In accordance with the ARM Plan, Travelers submitted its proposed rate filing ("Filing"), which was received by the Department on September 26, 2018, by which it sought rate changes for the new policy period beginning January 1, 2019. (Exhibit 1).

As required under § 287.896, RSMo, a public hearing was held concerning the Travelers' Filing. The hearing was conducted at the Department's Jefferson City offices on November 9, 2018. Travelers introduced its Filing into evidence as Exhibit 1 and explained it through the testimony of Brian P. Rucci, FCAS, MAAA, Second Vice President and Actuary, Residual Markets Division, for Travelers. The Department's property and casualty actuary, Julie Lederer, FCAS, MAAA, provided testimony regarding her review of the Filing. The Department introduced her written review as Exhibit A.

FINDINGS OF FACT

1. Effective Date: If approved, the premium rate changes proposed in Travelers' Filing will go

into effect on January 1, 2019.

2. Expert Witnesses: Both Rucci and Lederer demonstrated that they are qualified to provide expert testimony regarding workers' compensation residual market rate matters.

3. Indicated Premium Level Need: At the 110% loss ratio retention level option authorized by 20 CSR 500-6.960, Travelers' Filing proposes changes to the existing ARM Plan rates and rating structure which would result in an overall premium level change of +5.6%. This proposed premium level was determined by Travelers based on its analysis of the Plan's "premium level need" for the 2019 policy year. This premium level need analysis compared the expenses likely to be incurred by the Plan during this upcoming period with the premium likely to be received during the same period (without any premium increase or decrease). The various expense items included in this premium need analysis were summarized at Section II, p. 2 of Travelers' Filing, which indicated the following:

<u>Cost Items</u>	<u>Estimated % of Premium</u>
1. Expected On-Level Loss & ALAE Ratio	76.5%
2. General Expenses (Excluding Commissions)	12.4%
3. Unallocated Loss Adjustment Expenses	5.6%
4. Loading for Taxes, Licenses & Fees	1.5%
5. Agents' Commissions	3.7%
6. Loading for Uncollectible Premiums	3.3%
7. Catastrophic Provision-Certified Terrorism	0.1%
8. Loading for Profit and Contingencies	2.0%

Using the item numbers from the Cost Items listed above and their corresponding premium percentages, the premium level need calculation is set forth below.

$$\frac{[(\text{Cost Item 1} + \text{Cost Item 2} + \text{Cost Item 3} + \text{Cost Item 7})]}{(1 - \text{Cost Item 4} - \text{Cost Item 5} - \text{Cost Item 6} - \text{Cost Item 8})} - 1.00 = \text{Premium Level Need}$$

$$\frac{[(0.765 + 0.124 + 0.056 + 0.001)]}{(1 - 0.015 - 0.037 - 0.033 - 0.020)} - 1.00 = 5.6\%$$

Proposed premium level change = 5.6%

Findings of Fact 4 through 11, below, discuss in more detail Travelers' explanation for each of the eight (8) Cost Items listed above.

4. Expected On-Level Loss & ALAE Ratio: Travelers used the frequency/severity method in its rate request, developing separate projections of the estimated claim counts (the frequency) and the average loss and allocated loss adjustment expenses ("ALAE") (the severity) for the upcoming policy year. The bulk of the spreadsheets contained in the Filing represent the steps needed to arrive at this estimate of loss and ALAE. Travelers ties all these steps together to produce the loss and ALAE ratio to premium of 76.5% for the upcoming year used in Travelers' premium level need calculation. (See Exhibit 1, Section III, p. 2).

5. General Expenses (Excluding Commissions): Many of the remaining elements of Travelers'

premium level need calculation are related to the expenses associated with administering the Plan. Cost Item 2 of the calculation concerns General Expenses Excluding Commissions. Travelers' Filing sets forth the various anticipated expense levels contemplated by General Expenses for the upcoming policy year:

Estimated Premium (2019 Policy Year):	\$ 21,393,813
Estimated No. of Insureds (2019 Policy Year):	4,309

<u>Category of General Expense</u>	<u>Est. Cost in Thousands</u>	<u>% of premium</u>
Underwriting, Policy Issuance & Rating/Billing	\$569	2.66%
Missouri Injury Management Program	\$92	0.43%
Data Processing	\$659	3.08%
Premium Audit	\$560	2.62%
Loss Control and Prevention	\$289	1.35%
Actuarial, Finance, & Human Resources	\$231	1.08%
Other Overhead	<u>\$244</u>	<u>1.14%</u>
Total	\$2,644	12.36%

(See Exhibit 1, Section IV, p. 4; Section IX, p. 2).

6. Unallocated Loss Adjustment Expense: Travelers based the ARM Plan's Unallocated Loss Adjustment Expense ("ULAE") calculation on the AOE-to-loss ("Adjusting and Other Expenses") percentage filed with the Department by the National Council on Compensation Insurance, Inc. ("NCCI") in its Missouri Loss Cost Filing, with a proposed effective date of January 1, 2019; that number was 8.1%. From that number, Travelers calculated the ARM Plan's ULAE for medical and indemnity claims as 5.6% of premium for the upcoming policy year. (See Exhibit 1, Section IX, p. 3).

7. Loading for Taxes, Licenses & Fees: Travelers anticipated paying taxes, licenses, and fees at the equivalent of 1.5% of premium. The amount includes premium to pay the current Missouri Workers' Compensation Administrative Tax, the Missouri Property and Casualty Guaranty Fund assessment, and miscellaneous taxes such as personal property taxes, National Association of Insurance Commissioners ("NAIC") zone examinations, and agent license fees. (See Exhibit 1, Section IX, p. 4).

8. Agents' Commissions: Travelers compared ARM premiums with agent commissions for twenty-three (23) previous contract periods in order to calculate the corresponding commission "rates." Travelers selected 3.7% for the upcoming policy period based on historical commissions. (See Exhibit 1, Section IX, p. 5).

9. Loading for Uncollectible Premiums: Travelers projects uncollectable premiums for the upcoming policy year by calculating several different averages based on ARM Plan history. Travelers selected 3.3% for the 2019 policy year. (See Exhibit 1, Section IX, p. 6, and Exhibit A, pp. 20-21).

10. Catastrophic Provision – Certified Terrorism Losses: Since 2003, Travelers has included a catastrophe provision for certified terrorism losses. The Filing uses a load of \$0.005 per \$100

of payroll, which is consistent with the most recent NCCI loss cost filing that became effective January 1, 2018. Travelers translates the NCCI losses-to-exposure provision into an estimated losses-to-premium ratio of 0.1%. This amount is estimated to represent about 0.13% of the premium in the ARM Plan. (See Exhibit 1, Section X, pp. 1-2; Exhibit A, p. 21).

11. Profit & Contingency: The Filing includes loading for profit and contingencies, with a profit load of 2.0% of premium. Travelers explained through the review process that this 2% load has been used in Missouri ARM rate filings since 2003. (Exhibit A, p. 21).

12. Proposed Allocation of a Rate Increase Among Class Codes: Travelers' Filing included a proposal for changes to manual rates at the detail class code level. The proposal aligns the overall rates with the voluntary market loss costs filed by the NCCI with a proposed effective date of January 1, 2019. (See Exhibit 1, Sections XI & XII; Exhibit A, pp. 3-4).

According to Travelers, the rates will align with NCCI loss costs except in instances where they have deemed the premium impact to be too severe to be taken at once. To avoid large rate increases to employers, Travelers proposes that increases be capped at 15%, plus one-quarter of the difference between the indicated rate change and +15%. In addition, decreases are capped at -15% plus one-quarter of the difference between the indicated rate change and -15%. (See Exhibit 1, Letter to Gina Clark, RE: Rate Filing for the Missouri Alternative Residual Market – Effective January 1, 2019).

13. Establishing Residual Market Rate Cycle: Previous ARM rates have been established with an effective date of July 1, leaving residual market rate plans out of cycle with NCCI advisory filings relied upon in the industry. By establishing rates with an effective date of January 1, 2019, Travelers will bring the ARM back into cycle with NCCI filings and assure that future rate modifications correspond with rate changes in the voluntary market. (See Exhibit 1, Letter to Gina Clark, RE: Rate Filing for the Missouri Alternative Residual Market – Effective January 1, 2019; Exhibit A, p. 2).

14. The Department's Actuarial Analysis of Premium Level Need: Travelers' actuary, Rucci, testified that the proposed rates were neither excessive nor inadequate, nor were they unfairly discriminatory, and that they were actuarially sufficient to support the claims and losses with respect to the reasonable operating expenses of Travelers. The Department's actuary, Lederer, also reviewed the Filing and testified that the rates were not inadequate, excessive, or unfairly discriminatory, and the rates were actuarially sufficient to cover claims, losses, and reasonable operating expenses of the insurer (Transcript, pp. 11, 19-20).

CONCLUSIONS OF LAW

Based on the substantial and competent evidence provided by Travelers and the Department and presented at the November 9, 2018 hearing in the matter, and upon the record as a whole, the Director concludes as follows:

1. The subject matter of Travelers' Filing and the hearing held by the Department of Insurance, Financial Institutions and Professional Registration on said Filing on November 9, 2018 are within the jurisdiction of the Director under § 287.896,

RSMo.

2. January 1, 2019 is a reasonable date for new premium rates and rating structures authorized pursuant to this Order for new and renewal business in the Missouri residual market.

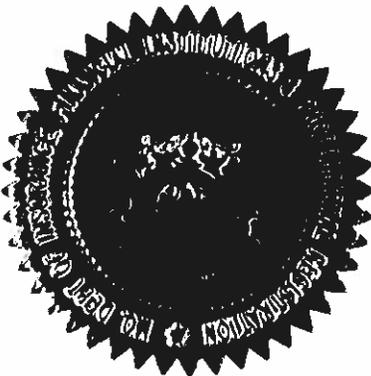
3. Travelers' proposed +5.6% average premium level change at the proposed 110% loss ratio retention level option, with the proposed methodology of calculating manual rates by class code, will produce a level of premium, investment income and final premium rates which are not excessive, inadequate, or unfairly discriminatory and which will be actuarially sufficient to cover the claims, losses, and reasonable operating expenses of the Missouri residual market under the ARM Plan.

ORDER

IT IS THEREFORE ORDERED that the rates and supplemental rate information, as proposed by Travelers, for use in the ARM Plan beginning January 1, 2019, as set forth above, are hereby approved.

SO ORDERED, SIGNED AND OFFICIAL SEAL AFFIXED THIS 07th DAY OF

December, 2018.



Chlora Lindley Myers

Chlora Lindley-Myers, Director
Missouri Department of Insurance,
Financial Institutions and
Professional Registration