

Minnesota Attorney General: Administrative Rules Proceedings

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Version 3
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#495 INSURANCE DIVISION
DEPT OF COMMERCE

RULES REVIEW CHECKLIST

DATE RULES RECEIVED 12/21 Temporary Rule YES

Resubmitted and Received _____

DUE DATE 12/29

a. Returned to Agency w/o filing w/Secy of State _____
b. Approved ✓ Date Sent Back to Agency 12/27

- -

1. Rules as Adopted _____
2. Rules as Proposed _____
3. Certificate of Board's Authorizing Resolution, where applicable _____
4. Order for Hearing _____
5. Notice of Hearing _____
   (i) Sufficiency _____
6. Secretary of State's List _____
7. Certificate of Acquisition of Secretary of State's List _____
8. Affidavit of Mailing _____
   (i) At least 30 days prior to hearing _____
9. Statement of Need and Evidence _____
10. Hearing Examiner's Report _____
11. Agency's Findings of Fact _____
12. Certificate of Board's Resolution Adopting Rules, where applicable _____
13. Order Adopting _____
14. Report of Chief Hearing Examiner _____
    (i) Finding of No Substantial Change _____
    (ii) Permission to Incorporate by Reference, where applicable _____
15. Certificate of Compliance with Rulemaking Procedures _____
16. Copy of Notice of Intent to Solicit Outside Opinion, where applicable _____
17. Petition by Public, where applicable _____.

Our File 495

Attorney General

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December 27, 1978

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296-4692

Temporary Rules Governing Minimum Anticipated Loss Ratios
(INS 275-282)

The above-referenced temporary rules, as adopted by the Commissioner of Insurance, have been approved by this office.

It is recommended that these rules and the order adopting rules be filed by your office with the Secretary of State's office. Pursuant to Minn. Stat. § 15.0412 subd. 5 (1978), the Insurance Division must insure that notice of this office's approval of these rules shall be published in the State Register as soon as practicable and that the adopted rules shall be published in the manner provided in Minn. Stat. § 15.0412 subd. 4 (1978).

JEH:mb

Enclosure

Department of Commerce
Insurance Division

Working Copy

PROPOSED TEMPORARY RULES GOVERNING
MINIMUM ANTICIPATED LOSS RATIOS

The proposed temporary rules published in the State Register, Volume 3, Number 21, p. 1078, November 27, 1978 (3 S. R. 1078), are amended as follows:

INS 277 Filing Requirements.

A. Each new policy form and each rate revision filing applicable to previously approved policy forms shall include an actuarial certification that the benefits provided are reasonable in relation to the premium charged and shall clearly indicate the anticipated loss ratio.

B. The actuarial certification shall include:

1. A description of the basis on which the ratio was determined;
2. A description of the calculation of the anticipated loss ratio;
3. A description of gross premiums, including the specific formula and assumptions or actuarial method used in calculating gross premiums;
4. The source of expected claim costs;
5. Identification of morbidity and mortality tables or experience studies used, sufficient explanation for evaluation of their validity, including copies of such tables if they are not currently published;

6. The experience of the insurer on similar coverages, if requested by the Commissioner;

7. First and renewal year commissions as a percent.

C. Filings for rate revisions for a previously approved policy, rider or endorsement shall also include the following:

1. A statement of the scope and reason for the revision, and an estimate of the expected average effect on premiums for the form;

2. A statement as to whether the filing applies only to new business, only to in-force business, or to both, and the reasons therefor;

3. A history of the earned premium and incurred claims experience under ~~existing rates~~ the form for the most recently completed five years of experience. ~~The history shall include, if available and appropriate, the ratios of actual claims to the claims expected according to the assumptions underlying the existing rates; substitution of actual claim run-offs for claim reserves and liabilities; determination of loss ratios with the increase in policy reserves (other than unearned premium reserves) added to benefits rather than subtracted from premiums; accumulations of experience funds; substitution of net level policy reserves for preliminary term policy reserves, or other adjustments or schedules suited to the form and to the records of the company; further,~~ If requested by

the Commissioner the history of experience for each ~~that~~ form shall also include:

a. Written premiums;

b. Unearned premium reserves;

c. Earned premiums;

d. Claim payments;

e. Claim reserves;

f. Incurred losses;

g. The additional reserves;

h. Total investment income on funds available for investment less that required to maintain policy reserves;

i. General expenses;

j. Commission expense;

k. Any dividends to policyholders;

l. The present number of policyholders and the number expected to lapse because of the rate increase;

m. The amount of reserve expected to be released due to any lapses;

n. Loss ratio data presented by both policy year or year of issue data as shown on a calendar year basis.

4. The dates and magnitude of each previous rate change for that form, if any;

~~5. The present number of policyholders and the number expected to lapse because of the rate increase;~~

~~6. The amount of reserve expected to be released due to any~~

~~lapses.~~

~~D. Loss ratio data shall be presented by both policy year and calendar year duration.~~

~~E.~~D. Insurers shall maintain records necessary to comply with INS 277C.3.

~~F.~~E. In determining the credibility and appropriateness of experience data, due consideration shall be given to the following factors:

1. Statistical credibility of premiums and benefits; e.g., low exposure, low loss frequency;
2. Experienced and projected trends relative to the kind of coverage; e.g., inflation in medical expenses, economic cycles affecting disability income experience;
3. The concentration of experience at early policy durations where select morbidity and preliminary term reserves are applicable and where loss ratios are expected to be substantially lower than at later policy durations;
4. The mix of business by risk classification.

INS 279 Reasonableness of Premiums in Relation to Benefits: Group Policies.

A. The benefits of a group policy or contract are presumed unreasonable in relation to the premium charged if the anticipated loss ratio ~~of said policy~~ does not equal or exceed 65%.

B. ~~Where the anticipated loss ratio of any group policy is equal to or greater than 65%,~~ The insurer shall be exempt from the filing requirements set forth at INS 277; provided that the insurer files

with the Commissioner a certification that the anticipated loss ratio meets the applicable minimum standard~~.~~, under either 1) the appropriate group form that constitutes a contract of group insurance, or 2) the appropriate contract of group insurance consisting of a variety of approved alternative forms.

INS 280 Refiling Approved Policy Forms.

A. All policy forms ~~which bear an approval date prior to the effective date of these rules~~ under which the anticipated loss ratio of such form does not meet the applicable standards set forth in INS 278 or INS 279~~,~~ or under which the loss ratio experience indicates that the minimum ~~anticipated loss ratio~~ standards set forth in INS 278 or INS 279 have not been ~~shall not be~~ achieved~~,~~ for the most recent five years of experience, shall be refiled for approval.

~~B. All new policy forms which met the requirements of INS 278A, or INS 279, when filed, under which the loss ratio experience after three years does not meet the minimum anticipated loss ratio standards of INS 278B.2.b, shall be refiled for approval.~~

Department of Commerce
Insurance Division

Working Copy

PROPOSED TEMPORARY RULES GOVERNING
MINIMUM ANTICIPATED LOSS RATIOS

Notice of Public Opinion Sought

The Department of Commerce, Insurance Division, has proposed the following temporary rules governing minimum anticipated loss ratios for accident and health policies be adopted. These rules are promulgated pursuant to Minn. Stat. §62A.02, Subd. 3.

All interested persons are hereby afforded the opportunity to submit data and views on the proposed rules for 20 days immediately following publication of this material in the State Register by writing to John T. Ingrassia, Supervisor, Life and Health Section, Insurance Division, Department of Commerce, 500 Metro Square Building, St. Paul, Minnesota 55101. Any written material received by the Insurance Division shall become part of the hearing record in the final adoption of the temporary rule.

Such publication is hereby ordered.

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Temporary Rules As Proposed

INS 275 Scope and Authority.

Rules 275 - 282 are promulgated pursuant to Minn.Stat. §62A.02, Subd. 3 and apply to all policies or contracts of accident and health insurance written pursuant to Minn. Stat. §60A.06, Subd. 1, Clause 5a.

INS 276 Definitions.

A. "Non-cancellable policy" means any individual policy or contract under which there is no unilateral right of the insurer to cancel, nonrenew, amend or change the terms, conditions, or premium rate of the policy or contract in any way.

B. "Guaranteed renewable policy" means any individual policy or contract under which there is no unilateral right of the insurer to cancel, nonrenew, amend or change the terms or conditions of the policy or contract in any way other than by changes in premium rates applicable to all policies of the same class.

C. "Nonrenewable for stated reasons only" means any individual policy or contract which expressly limits the insurer's right of cancellation or nonrenewal of all policies of the same class to stated reasons other than deterioration of health.

D. "Optionally renewable policy" means any individual policy or contract which allows the insurer the unrestricted right of cancellation or nonrenewal.

E. "Medicare Supplement policy" means any individual policy or contract which provides benefits for the costs of medical, surgical, hospital or nursing home care, and which is marketed as providing benefits which complement or supplement the benefits provided by Medicare, or which is primarily designed or marketed for sale to persons aged 65 or over.

F. "Medical Expense policy" means any policy or contract which provides benefits for the costs of medical, surgical, hospital or nursing home care. Medical expense policy does not include Medicare Supplement policies or per diem or hospital indemnity policies.

G. "Per Diem or Hospital Indemnity policy" means any policy or contract which provides benefits upon the occurrence or existence of a condition precedent, without reference to expenses incurred or services provided for hospital, surgical or medical care.

H. "Loss of Income policy" means any policy or contract which provides benefits to replace earnings lost during periods of incapacity due to injury or illness.

INS 277 Filing Requirements.

A. Each new policy form and rate revision filing applicable to previously approved policy forms shall include an actuarial certification that the benefits provided are reasonable in relation to the premium charged and clearly indicate the anticipated loss ratio.

B. The actuarial certification shall include:

1. A description of the basis on which the ratio was determined;
2. A description of the calculation of the anticipated loss ratio;
3. A description of gross premiums, including the specific formula and assumptions used in calculating gross premiums;
4. The expected claim costs;
5. Identification of morbidity and mortality tables or experience studies used, sufficient explanation for evaluation of their validity, including copies of such tables if they are not currently published;
6. The experience of the insurer on similar coverages;
7. First and renewal year commissions as a percent.

C. Filings for rate revisions for a previously approved policy, rider or endorsement shall also include the following:

1. A statement of the scope and reason for the revision, and an estimate of the expected average effect on premiums for the form;
2. A statement as to whether the filing applies only to new business, only to in-force business, or to both, and the reasons therefor;
3. A history of the experience under existing rates. The history shall include, if available and appropriate, the

ratios of actual claims to the claims expected according to the assumptions underlying the existing rates; substitution of actual claim run-offs for claim reserves and liabilities; determination of loss ratios with the increase in policy reserves (other than unearned premium reserves) added to benefits rather than subtracted from premiums, accumulations of experience funds; substitution of net level policy reserves for preliminary term policy reserves; or other adjustments or schedules suited to the form and to the records of the company; further, the history of that form shall also include:

a. Written premiums;

b. Unearned premium reserves;

c. Earned premiums;

d. Claim payments;

e. Claim reserves;

f. Incurred losses;

g. The additional reserves;

h. Total investment income on funds available for investment less that required to maintain policy reserves;

i. General expenses;

j. Commission expense;

k. Any dividends to policyholders.

4. The dates and magnitude of each previous rate change for that form, if any;

5. The present number of policyholders and the number expected to lapse because of the rate increase;

6. The amount of reserve expected to be released due to any lapses.

D. Loss ratio data shall be presented by both policy year and calendar year duration.

E. Insurers shall maintain records necessary to comply with INS 277C.3.

F. In determining the credibility and appropriateness of experience data, due consideration shall be given to the following factors:

1. Statistical credibility of premiums and benefits; e.g., low exposure, low loss frequency;

2. Experienced and projected trends relative to the kind of coverage; e.g., inflation in medical expenses, economic cycles affecting disability income experience;

3. The concentration of experience at early policy durations where select morbidity and preliminary term reserves are applicable and where loss ratios are expected to be substantially lower than at later policy durations;

4. The mix of business by risk classification.

INS 278 Reasonableness of Premiums in Relation to Benefits: Individual Policies.

A. With respect to a new policy form relating to an individual insurance policy or contract, the benefits are presumed unreasonable in relation to the premiums charged if the anticipated loss ratio does not equal or exceed the standards shown in the following table:

Type of Coverage	Renewal Clause OR	SR	GR	NC
Medicare Supplement	70%	65%	65%	55%
Medical Expense	60%	55%	55%	50%
Per Diem and Hospital Indemnity	60%	55%	55%	50%
Loss of Income	60%	55%	50%	45%
Other	60%	55%	50%	50%

1. Definition of renewal clauses:

   a. "OR" means optionally renewable;

   b. "SR" means nonrenewable for stated reasons only;

   c. "GR" means guaranteed renewable;

   d. "NC" means noncancellable.

B. With respect to rate revision filings for a previously approved policy form, premiums shall be presumed unreasonable in relation to benefits if the following standards are not met:

1. With respect to policy forms issued on and after the effective date of the rate revision, the standards shall be the same as in INS 278A;

2. With respect to policy forms issued prior to the effective date of the rate revision, the ratios derived from the formula set forth at a. and b. below shall be equal to or greater than the standards set forth at INS 278A;

   a. The anticipated loss ratio over the entire period for which the revised rates are computed to provide coverage;

   b. The ratio of (1) to (2); where

(1) is the sum of the accumulated benefits, from the original effective date of the form to the effective date of the revision, and the present value of future benefits, and

(2) is the sum of the accumulated premiums from the original effective date of the form to the effective date of the revision and the present value of future premiums,

such present values to be taken over the entire period for which the revised rates are computed to provide coverage.

INS 279 Reasonableness of Premiums in Relation to Benefits: Group Policies.

A. The benefits of a group policy are presumed unreasonable in relation to the premium charged if the anticipated loss ratio of said policy does not equal or exceed 65%.

B. Where the anticipated loss ratio of any group policy is equal to or greater than 65%, the insurer shall be exempt from the filing requirements set forth at INS 277; provided that the insurer files with the Commissioner a certification that the anticipated loss ratio meets the applicable minimum standard.

INS 280 Refiling Approved Policy Forms.

A. All policy forms which bear an approval date prior to the effective date of these rules under which the anticipated loss ratio of such form does not meet the applicable standards set forth in INS 278 or INS 279;

or under which the loss ratio experience indicates that the minimum anticipated loss ratio standards shall not be achieved, shall be refiled for approval.

B. All new policy forms which met the requirements of INS 278A. or INS 279, when filed, under which the loss ratio experience after three years does not meet the minimum anticipated loss ratio standards of INS 278 B.2.b. shall be refiled for approval.

INS 281 Disclosure.

Disclosure of the anticipated loss ratio of an individual policy shall be made in writing to the applicant at the time of application for coverage. Said written disclosure may be provided either on the application or in a separate writing which is left with the applicant.

INS 282 Exemptions.

Policy forms which are nonrenewable and which do not provide coverage for a period greater than one year are exempt from the minimum standards, filing requirements and disclosure requirements set forth in INS 277 - INS 281.

INS 283 - 290 Reserved for Future Use.

ADMIN 1000 (Rev. 1/78)

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL - Commerce

Office Memorandum

TO : Lee Sheey
Special Assistant
Attorney General

DATE: 12/21/78

FROM : Reynaud E. Harp REH
Special Assistant
Attorney General

PHONE: 9412

SUBJECT: Temporary Rules Governing Minimum Anticipated Loss Ratios (INS 275 - 282)

The above referenced temporary rules are proposed pursuant to the authority granted in Minn. Stat. §62A.02, subd 3 (1978). The proposed temporary rules have been modified in response to data submitted to the agency during the statutory 20 day comment period.

These rules are hereby submitted for review as to form and legality pursuant to Minn. Stat. &15.0412, subd 5 (1978).

Accordingly, you will hereby find enclosed the following:

- 3 copies of the rules as originally published in the State Register at 3 S.R. 1078
- 3 copies of amendments to the proposed rules
- Notice of intent to solicit information regarding the proposed rules and all comments received by the agency.
- Order adopting the temporary rules.

REH:saf

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
INSURANCE DIVISION

In the Matter of the Adoption
of Temporary Rules Governing
Minimum Anticipated Loss Ratios

IT IS HEREBY ORDERED that the proposed temporary rules governing minimum anticipated loss ratios for accident and health policies as published in the State Register, Volume 3, Number 21, p. 1078, November 27, 1978 (3 S. R. 1078) and as amended by the attached amendments are adopted.

Dated: December 21, 1978

Berton W. Heaton

BERTON W. HEATON
Commissioner of Insurance