

1. All insurers, affiliated groups of insurers and rating organizations writing or transacting private passenger automobile insurance in the voluntary market in this State; and

2. The New Jersey Personal Automobile Insurance Plan.

(c) These rules shall apply to base rate changes by coverage, territorial base rate changes, expense fees, class factors, deductibles, increased limit factors and discounts and credits.

Amended by R.2003 d.500, effective December 15, 2003.
See: 35 N.J.R. 3093(a), 35 N.J.R. 5611(a).

In (a), deleted "expedited" preceding "process" and inserted "limited rate" preceding "changes"; in (b)1, inserted ", affiliated groups of insurers" following "All insurers".

11:3-16B.2 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

"Commissioner" means the Commissioner of the Department of Banking and Insurance in the State of New Jersey.

"Coverage" means:

1. Split limit bodily injury ("BI");
2. Split limit property damage ("PD");
3. Combined single limit ("CSL");
4. Personal injury protection including medical payments ("PIP");
5. BI, PD and PIP combined ("PACK");
6. Uninsured and underinsured motorists, bodily injury and property damage combined ("UM");
 - i. For developing the indications by coverage, UM data shall be combined with liability data in 1, 3 or 5 above;
7. Comprehensive ("COMP"); and
8. Collision ("COLL").

"Earned premium" ("EP") means direct, earned premium net of dividends paid or incurred.

"Personal Automobile Insurance Plan" or "PAIP" means the New Jersey Personal Automobile Insurance Plan established by N.J.A.C. 11:3-2.

"Rate change" means a rate increase of no more than seven percent overall or not more than 10 percent in any single coverage. Rate change also means any decrease in rates or a change in rates that is revenue neutral.

"Written premium" ("WP") means direct, written premium net of dividends paid or incurred.

Amended by R.2003 d.500, effective December 15, 2003.

See: 35 N.J.R. 3093(a), 35 N.J.R. 5611(a).

Rewrote "Rate change" and "Written premium".

11:3-16B.3 Rate process for limited rate changes; insurers and rating organizations

(a) An insurer and/or rating organization, pursuant to N.J.S.A. 17:33B-31, may file for a rate change in accordance with this subchapter. The insurer shall provide the following information in support of its filing:

1. A cover letter notifying the Department of its intention to make a rate change according to the provisions of this subchapter; the company's file number, a statement of the percentage and total dollar amount of the change in rates by coverage for each company included in the filing with subtotals by group of coverages (liability versus physical damage) and an overall total in the format of Appendix Exhibit E of N.J.A.C. 11:3-16 incorporated herein by reference; a statement containing the effective date of the change for new and renewal policyholders; and the name, telephone number and mailing address of the company officer familiar with the filing to whom further inquiries regarding the filing may be directed;

2. A checklist that sets forth the information in Exhibit A in the subchapter Appendix incorporated herein by reference;

3. An exhibit, supported by an actuarial certification, that illustrates that the new rates are within the ranges permitted by N.J.S.A. 17:29A-36 and 29A-46.6(e);

4. The manual rating pages containing the territorial base rates by coverage to be implemented, accompanied by an explanatory memorandum showing the calculation of the new rates by coverage, using the existing rates by coverage as the starting point in the calculation; and

5. Completed rating examples using the examples set forth in N.J.A.C. 11:3-45, which show the proposed premium amounts.

(b) The filer may supplement a complete filing in response to questions from the Department about matters that require clarification or additional explanation, provided that the prompt review of the filing within the time frames set forth in this subchapter is not adversely affected.

Amended by R.2003 d.500, effective December 15, 2003.

See: 35 N.J.R. 3093(a), 35 N.J.R. 5611(a).

In (a), inserted "the company's file number," following "the provisions of this subchapter;" and "for new and renewal policyholders" following "of the change" in 1 and deleted the last sentence of 4.

Amended by R.2006 d.243, effective July 3, 2006.

See: 37 N.J.R. 4162(a), 38 N.J.R. 2828(c).

In (a)5, substituted "N.J.A.C. 11:3-45" for "N.J.A.C. 11:3-19A.3" and "show" for "shows".

**11:3-16B.4 Rate process for limited rate changes;
calculation for private passenger automobile
insurance**

(a) General requirements for limited rate change filings are as follows:

1. Filers shall provide coverage indications based on three accident years of data. For coverages that are fully credible based on less than three years of data, filers may use two accident years of data to calculate indications for those coverages;

2. Indications may be based on either total limit or basic limit data for the liability coverages;

3. Coverage indications shall be calculated as follows:

i. Filers that only sell split limits policies shall submit separate BI and PD indications;

ii. Filers that only sell CSL policies shall submit one CSL indication. However, the BI and PD portion of losses shall be developed and trended using separate loss development triangles and trend factors;

iii. Filers that sell both split limits and CSL policies can either submit separate BI, PD and CSL indications or allocate the CSL data between BI and PD;

iv. Filers that sell PACK policies can submit one indication for the policy but the BI, PD and PIP portion of the losses shall be developed and trended using separate loss development triangles and trend factors; and

v. UM data shall be combined with liability data in (a)3i, ii, iii or iv above. Filers do not have to calculate a separate indication for UM.

(b) Filers shall provide the following information regarding projected earned premium:

1. New Jersey (NJ) earned premium by coverage, by accident year;
2. On-level factors by coverage, based on company specific historical NJ rate changes; and
3. The premium trend factors for COMP and COLL coverages, based on either annual selections from the latest approved Insurance Services Office (ISO) filing in NJ, or internal company data.

i. If supplying premium trend factors developed from internal company data, the filer shall provide all data and methodology.

(c) Ultimate loss and loss adjustment expense ("LAE") shall be determined by:

1. NJ incurred loss and defense/cost containment expense ("ALAE"), by coverage, by accident year either combined (loss and ALAE) or developed separately;

i. For COMP and COLL coverages, filers may use paid loss instead of incurred loss.

2. New Jersey loss development factors (LDFs) by coverage, either combined (loss and ALAE) or separately;

i. The selected age-to-age factors shall be based on the latest five-year X HI/LO average, that is, using a straight average of the latest five age-to-age factors, excluding the highest and lowest.

ii. BI and PIP LDFs shall be developed to 87 months, with a five percent tail factor from 87 months to ultimate.

iii. PD, COMP and COLL LDFs shall be developed out to 51 months, with no subsequent tail factor;

iv. LDFs for COLL and COMP shall be consistent with the methodology used in (c)1 above.

3. Loss trend factors shall be based on either annual selections from the latest approved ISO filing in NJ, or the latest available NJ Fast Track data, computed separately for severity and frequency by coverage (BI, PIP, PD, COMP, COLL). All data must be based on paid, not incurred/arising, claims.

i. If supplying Fast Track trend factors developed by the company, the filer shall use the 12 quarter-rolling average and provide all data and calculations.

ii. For COMP, filers may use country-wide Fast Track data to smooth out the effect of catastrophes;

4. Adjusting and other claims related expenses ("ULAE") shall be determined as a ratio of incurred

"ULAE" to incurred loss plus incurred "ALAE" from the latest three-year average of Countrywide Insurance Expense Exhibit (IEE) in the insurer's annual statement filed with the Department; and

5. Effects of all applicable law changes shall be reflected, including but not limited to, the Automobile Insurance Cost Reduction Act (AICRA).

6. Filers may exclude catastrophe losses from the COMP data and include a load based either on the selected factor from ISO's last approved private passenger automobile filing in New Jersey or derive a factor from at least 10 years of the filer's internal New Jersey catastrophe COMP data.

(d) Expenses shall be determined by group of coverages (liability versus physical damage) from the total of:

1. Three year average of commissions and brokerage expense ratios based on the NJ page 14 of the insurer's latest annual statement filed with the Department and calculated as ratios to NJ WP;

2. Three-year average of general and other acquisition expense ratios, based on the countrywide IEE of the insurer's latest annual statement filed with the Department and calculated as ratios to EP;

3. The sum of (d)1 and 2 above are subject to the expense limitations found in N.J.A.C. 11:3-16.10(b)6 and shall not include any of the expenses listed in N.J.A.C. 11:3-16.10(b)8. Current expense limitations by type of insurer will be posted annually on the Department's website www.njdobi.org, by group of coverages (liability versus physical damage).

4. Three-year average of taxes, licenses and fee ratios, based on the NJ page 14 of the insurer's latest annual statement filed with the Department and calculated as ratios to NJ WP; plus

5. Profit and contingency provisions reflecting investment income computed pursuant to the Return on Equity Formula in N.J.A.C. 11:3-16.10(a).

6. Total capped expenses shall be determined from the sum of (d) 3 through 5 above.

(e) Permissible loss and LAE ratios by group of coverages (liability versus physical damage) shall be determined by subtracting total capped expenses, determined in (d)7 above from 1.00.

(f) Credibility shall be determined by:

1. If the filer submits indications on a total limit basis, the full credibility standard shall be based on 4,000 claims for BI, PD, CSL and PACK. If the filer submits indications on a basic limits basis, the full credibility standard shall be based on 3,000 claims for BI, PD, CSL and PACK. The full credibility standard for PIP, COMP and COLL shall be based on 3,000 claims.

2. Alternatively, the filer may support different full credibility standards than those in (f)1 above by calculating the mean, variance and coefficient of variation from the company's internal size-of-loss distributions by coverage and then adjust the 1,082 claims frequency standard by the appropriate factors by coverage to reflect variation in severity. The severity adjustment shall be made and the filer shall provide all data together with methodology.

3. The filer shall apply the classical credibility procedure using the square-root rule to the full credibility standards obtained in either (f)1 or 2 above to determine the credibility of each coverage. The minimum credibility assigned to any coverage or combination of coverages (CSL or PACK) shall be 50 percent.

(g) The complement of credibility shall be assigned to the loss ratio trends by coverage, trended from the last effective date to the proposed effective date using premium and loss trends by coverage determined in (b)3 and (c)3 above, respectively; and

(h) The indicated rate changes by coverage and overall shall be calculated as follows:

1. The all year projected ultimate loss and LAE by coverage determined in (c) above divided by the all year projected premium by coverage determined in (b) above.

2. The raw indications by coverage shall be calculated by the all year loss and LAE ratios determined in (h)1 above divided by the permissible loss and LAE ratios determined in (e) above.

3. The credibility-weighted indications by coverage shall be determined by:

- i. Paragraph (h)2 above (raw indication);
- ii. Multiplied by (f)3 above (credibility);
- iii. Plus (1 + (g) above) (loss ratio trend);
- iv. Multiplied by (1 - (f)3 above) (complement of credibility).

4. The overall indication results from the credibility-weighted indications by coverage, determined in (h)3 above, weighted by the latest year's on-level projected earned premium by coverage determined in (b) above.

(i) If only uniform Statewide base rate changes by coverage are proposed, the information in (a) through (h) above is sufficient. If proposed base rate changes vary by territory, the filer shall provide credibility-weighted territorial indications by coverage, in addition to (a) through (h) above.

1. Territorial indications by coverage shall be based on three years of data and shall be indexed to the indications by coverage, derived in (h)3 above.

2. Territorial indications by coverage shall be based on a full-credibility standard of 3,000 claims per territory, with the complement of credibility applied to the State-wide indications by coverage determined in (h)3 above or to the current territorial rate/relativity.

(j) Filers that include changes to expense fees shall provide the standard, fixed expense fee calculation. For changes to deductible factors, classification factors, increased limit factors, discounts and credits, filers shall provide three year relative loss ratios to justify the proposed change(s).

(k) All filers shall use the Department's methodology set forth in (a) through (j) above. The filer can submit an alternate methodology or use different data to support its filing provided that it is clearly labeled as such and is submitted in addition to the methodology in (a) through (j) above. The Department's review of any alternate methodology or data submission is not governed by the time frames in N.J.A.C. 11:3-16B.6(d).

Amended by R.2003 d.500, effective December 15, 2003.

See: 35 N.J.R. 3093(a), 35 N.J.R. 5611(a).

Rewrote the section.

11:3-16B.5 Limitation on filer's rate request

(a) If the overall indicated change as determined in N.J.A.C. 11:3-16B.4 is an increase of seven percent or more, the filer shall request an overall increase of no more than seven percent.

(b) If the overall indicated change as determined by N.J.A.C. 11:3-16B.4 is less than seven percent, the filer shall request no more than the overall rate change that is indicated.

(c) Filers shall be permitted to seek single coverage increases of up to 10 percent provided the rate change is indicated by coverage and the overall increase does not exceed seven percent.

(d) A filer may not have more than one rate-change request pursuant to this subchapter approved in any 12-month period; however, this limitation shall not apply to a filing for an overall reduction in rates, or to a filing reflecting a statutory change in coverage.

(e) An insurer not using this limited rate change process in a 12-month period may elect to file a proposed alteration to its rating system that will result in a rate change of not more than double the increase permitted pursuant to (a) above, if the filing complies with the requirements of N.J.S.A. 17:29A-46.6 and this subchapter, and a prior filing for a proposed alteration as referenced in this subsection has not been approved and effective more than once within a 24-month period.

Amended by R.2003 d.500, effective December 15, 2003.

See: 35 N.J.R. 3093(a), 35 N.J.R. 5611(a).

Raised the percentages from there to seven throughout; in (c), raised the single coverage percent from five to ten percent; rewrote (d) and added (e).

11:3-16B.6 Review; general principles; action

(a) If the Commissioner determines that the filing includes all the information and calculations required to support the rate change, then the Commissioner shall approve the filing.

(b) A filing will be deemed submitted when it is received by the Department’s Property and Casualty Office and is accompanied by:

1. All the documents, exhibits and calculations required by this subchapter; and
2. A certification of a qualified actuary, specifying that the filing is complete and complies with this subchapter.

(c) After a filing has been submitted in accordance with (b) above, the Department, within 20 days of receipt, shall conduct a preliminary review to determine if it is in compliance with N.J.S.A. 17:29A-46.6 and this subchapter. If the filing is in compliance, it shall be deemed complete by the Department. If a filing is not in compliance, the filer will be notified of deficiencies in the filing within 20 days of receipt. If the filer is not notified of deficiencies within 20 days of receipt, it shall be deemed complete and is under review.

(d) The Commissioner shall render a decision on a filing requesting an increase of up to three percent within 30 days after receipt of the filing. A decision on a filing requesting an increase of more than three percent, but not more than seven percent, shall be rendered within 45 days after receipt of the filing.

(e) The Commissioner, pursuant to (a) above and N.J.S.A. 17:29A-46.6d, shall render one of the following determinations on the filing:

1. Approve the rate change filing as filed;
2. Disapprove the rate change filing; or
3. Approve a modified rate change filing.

(f) In the event additional time is needed to act on a complete rate change filing, the Commissioner may extend the time periods for review specified in (d) above by no more than 15 days.

(g) A disapproval or modification of the filing by the Commissioner shall be considered a final agency decision in accordance with the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq.

(h) If a filer has a pending application for prior approval rate change submitted in accordance with N.J.A.C. 11:3-16.6, the filer shall promptly amend such pending filing to reflect any rate change approved in accordance with this subchapter.

(i) If a filer has a pending application for a limited rate change pursuant to this subchapter, the filer shall promptly amend such pending filing to reflect any rate change approved in accordance with N.J.A.C. 11:3-16.6.

Amended by R.2003 d.500, effective December 15, 2003.
See: 35 N.J.R. 3093(a), 35 N.J.R. 5611(a).
Rewrote the section.

APPENDIX

Exhibit A

<u>Section</u>	<u>Description</u>	<u>Page Number</u>
16B.3(a)1	<ul style="list-style-type: none"> ● Cover letter notifying DOBI of intention to modify rates ● Statement of proposed changes (with \$ and %) by coverage ● Exhibit E (% Change, \$ Effect, and Current/Proposed Expense Fee by coverage) (from N.J.A.C. 11:3-16) ● Statement of Effective Date of Change ● Name/Telephone/Address of Company Officer ● Includes Company file number ● Includes New/Renewal effective dates 	
16B.3(a)2	This checklist	
16B.3(a)3	<ul style="list-style-type: none"> ● Compliance with N.J.S.A. 17:29A-36 <ul style="list-style-type: none"> ● No class factor above 2.50 ● No territory above 1.35 (incl. expense fees) ● No 65+ charged > 1.25 x 65+ average ● Compliance with N.J.S.A. 17:29A-46.6(e) ● Actuarial Certification of above ● Revised Manual Pages ● Includes calculation of new rates 	
16B.3(a)4	Rating Examples	
16B.3(a)5	Indications by coverage based on three years of data (or two years if fully credible with that data)	
16B.4(a)1	Liability data can be either at basic or total limits	Basic/Total
16B.4(a)2	Required Indications by Types Sold:	
16B.4(a)3	<ul style="list-style-type: none"> ● Only split limit: separate BI and PD (with UM) ● Only CSL: CSL (with UM) with losses developed separately ● Both split & CSL: separate BI & PD (with UM), with CSL either allocated or done separately ● Only Package: PACK (with UM) with losses developed separately 	
16B.4(b)1	Earned Premium by coverage by accident year	
16B.4(b)2	On-Level factors based on company NJ rate changes	
16B.4(b)3	Comp & Coll Premium Trend Factors from ISO or internal data (with data and methodology used for internal)	
16B.4(c)1	NJ incurred loss and incurred ALAE (may be combined) by accident year by coverage (paid loss OK for COMP and COLL).	

<u>Section</u>	<u>Description</u>	<u>Page Number</u>	<u>Section</u>	<u>Description</u>	<u>Page Number</u>
16B.4(c)2	Loss Development Factors based on average of last five years excluding high and low (that is, middle three of five years' factors) • BI/PIP developed to 87 months, tail factor of 1.05 PD/Comp/Coll developed to 51 months, tail factor of 1.00			claims BI/PD/CSL/PACK at basic limits: 3,000 claims PIP/COMP/COLL: 3,000 claims Company Calculated Credibility Standards (optional)	
16B.4(c)3	Loss Trend Factors based on latest approved ISO filing or latest available NJ Fast Track, separately for frequency and severity by coverage. For Fast Track, 12 quarter rolling average used. For COMP, countrywide Fast Track data permitted. Must use paid claims (not incurred claims).		16B.4(f)2 16B.4(f)3 16B.4(g)	Credibility determined using square root rule, minimum 50 percent. Complement of credibility assigned to Loss Ratio Trend (Loss Trend divided by Premium Trend), trend period is effective date of last filing to proposed effective date.	
16B.4(c)4	ULAE Factor is ratio of incurred ULAE to incurred Loss + ALAE, and comes from latest three available IEEs.		16B.4(h)1 16B.4(h)2 16B.4(h)3	Projected Ultimate Loss + LAE Ratio is (c)/(b) Raw indication is (h)1/(e) Credibility-weighted indication is as described	
16B.4(c)5	Law changes accounted for: • AICRA (effective 3/21/99) (all coverages) • Primary Seatbelt (effective 5/1/00) (one percent BI and PIP) • Graduated Licensing (effective 1/1/01) (one percent BI, PD, PIP, COLL)		16B.4(h)4 16B.4(i)	Overall indication is weighted average by latest year's earned premium If proposing territorial changes, territorial indication based on three years of data with credibility standard of 3,000 claims per territory (complement is Statewide indication above or current relativity)	
16B.4(c)6	Catastrophe Factor permitted for Comp from either ISO or internal data (minimum 10 years)		16B.4(j)	If expense fees changing, standard expense fee calculation. For other items changing, changes based on three-year relative loss ratios.	
16B.4(d)1	Commission and Brokerage Expenses based on NJ WP From Page 14 (three-year average)		16B.4(k)	Alternate Methodology permitted (optional, see regulation)	
16B.4(d)2	General Expense and Other Acquisition Expense based on CW EP from IEE (three-year average)		16B.5(a)-(b)	Request overall limited to smaller of seven percent or indicated change	
16B.4(d)3	Expenses (1 and 2 above) capped by N.J.A.C. 11:3-16 Appendix H Calculation (see www.nj.gov/dobi for current expense caps)		16B.5(c) 16B.5(d)	Request by coverage limited to smaller of 10 percent or indicated change Last limited rate change filing approved at least 12 months ago	Yes/No
16B.4(d)4	Tax, License, and Fee Expense based on NJ WP from Page 14 (three-year average)			Amended by R.2003 d.500, effective December 15, 2003. See: 35 N.J.R. 3093(a), 35 N.J.R. 5611(a). Rewrote the section.	
16B.4(d)5	Profit and Contingencies provision based on Return on Equity Formula				
16B.4(d)6	Total Capped Expenses is sum of 3 through 5 above				
16B.4(e)	Permissible Loss Ratio is 1 minus (d)6				
15B.4(f)1	DOBI Credibility Standards BI/PD/CSL/PACK at total limits: 4,000				

SUBCHAPTER 17. (RESERVED)

**SUBCHAPTER 18. PRIVATE PASSENGER
AUTOMOBILE INSURANCE: RATE FILING
REVIEW PROCEDURES**

17:29A-1 et seq. It is intended to provide for the expeditious review and disposition of automobile insurance rate filings consistent with applicable statutes regarding insurance and administrative procedures.

11:3-18.1 Purpose and scope

(a) This subchapter sets forth the procedures used by the Department to review voluntary market private passenger automobile insurance rate filings and implements N.J.S.A.

(b) This subchapter applies to rate filings that require prior approval of the Commissioner made pursuant to N.J.S.A. 11:29A-14.