Speed to Market Tools for Minimum Premiums

Purpose: Speed to Market (STM) Tools provide guidance for preparing a filing. Although using the information in this document may not be legally required and does not guarantee that your filing will be approved, it will expedite the review of your filing.

Who should use this document?

Property and casualty insurers submitting rate filings that introduce minimum premiums, increase existing minimum premiums or for new programs that include minimum premiums.

Speed to Market Information

I Minimum Premium Worksheet

I.A. To use our preferred method for calculating a minimum premium, complete the Calculation of Policywriting Minimum Premium worksheet.

(1) Save the completed worksheet as a PDF file and attach that file to your filing in SERFF. Do NOT submit the Excel version in SERFF.

(2) You should edit only cells with a gray background.

(3) You may use your own worksheet, if you wish, as long as the calculations are the same.

I.B. For section 1, Expense and Profit Provisions:

(1) Be sure to include the expense exhibit and profit calculation required by RCW 48.19.040 and WAC 284-24-065.

(2) In the Portion Fixed column, you may assume that a maximum of 50% of your other acquisition expenses and 50% of your general expenses are fixed. Selections lower than 50% are okay. If you assume other expenses are fixed or that a higher proportion of other acquisition and general expenses are fixed, we might object, requiring detailed support for those assumptions.

(3) Item 1.F, Other expenses would typically be left blank. But if you enter something, please explain on the form what these expenses are.

I.C. Section 3 estimates average policy premiums using total premiums and the policy count for the program. Use state data for the program if available. If not, using countrywide data for the program might be appropriate. For a new program with no premium or policy count data to use, you will need to come up some way of estimating average premiums. Be sure to explain and support your estimate.

I.D. Row 4 requires an estimate of premiums for a minimum-sized risk.

(1) This quantity should be estimated by determining the premium your proposed rating plan would generate for the *smallest risk you would consider writing in the program*. Begin by describing, in a narrative, the characteristics and exposure of the smallest risk you would write in the program. Example:

A minimum-sized risk for this program would be a convenience store with under 2,000 square feet, four employees, and no losses in the last five years.

Then use this information and your rating plan (but not the minimum premium rule) to determine the premium for such a risk.

(2) **For row 4, a common error, and a common reason we write an objection, is using the average premium for a group of small risks or the premiums for all risks subject to the minimum premium.**

I.E. In row 6, the worksheet calculates the indicated minimum premium using the formula shown. A common error is trying to estimate a dollar amount of variable expenses by multiplying either row 3.C or row 4 by the total variable expense percentage in row 1.G. We often object to minimum premium calculations with this error. The correct method, as shown, is to divide by the quantity (100% - variable expense %).

I.F. The minimum premium you select in row 7 should be less than or equal to the indicated minimum premium in row 6. To avoid objections, do not round row 6 up. You do not have to select a round number, but if you do it should be lower than, not higher than, the indicated amount in row 6. You may select a minimum premium that is lower, even much lower, than the indicated value in row 6.

II Other Considerations:

II.A. The worksheet and discussion above apply to *policy-writing* minimum premiums. This guidance does not apply to minimum charges for optional coverages or minimum per-layer charges for excess and umbrella coverages.

II.B. Instead of using a minimum premium, consider filing an expense constant. An expense constant is just a flat dollar amount added to premiums in your premium calculations, not subject to your various rating factors, discounts, and surcharges. If you use an expense constant, be sure to avoid double-counting by not also using a minimum premium or including fixed expenses in your base rates.

II.C. In calculating a minimum premium, consider whether any fees in your rating plan already account for fixed costs. To avoid overcharging minimum-sized risks, you may need to reduce the fixed costs per policy used in the minimum premium calculation to account for fee income.

II.D. Minimum premiums are not required rating elements. If you are having difficulty providing the necessary support for your minimum premium, consider simply removing it from your rating plan. Alternatively, selecting a smaller minimum premium might expedite approval of your filing. For instance, if the difficulty involves estimating loss costs for a minimum-sized risk (row 4 of the worksheet), you could enter $0 in row 4.

Contact Us

For feedback, suggestions, and filing related questions, contact the Rates & Forms Help Desk:

(360) 725-7111

rfhelpdesk@oic.wa.gov