Ratemaking Glossary

A

Actuary—An insurance industry professional who analyzes data and projects the future costs or liabilities of insurance products.

Aggregate Financial Calls—Aggregated premium, losses, and claim counts that are summarized by individual year and reported to NCCI on policy and calendar-accident year bases.

Aggregate Ratemaking—The process of aggregating and reviewing statewide data to determine the overall proposed statewide rate level change recommendation that is filed for review and approval by state insurance departments.

C

Calendar-Accident Year—The period that includes all accidents that have occurred within a given calendar year. Usually used in connection with the compilation of accident year losses and calendar year premium.

Calendar Year—(1) The 12-month period beginning January 1 and ending December 31. (2) The method of accounting for all financial transactions occurring during a specific year.

Class Ratemaking—The process of reviewing Unit Statistical data to distribute the overall rate change in a state across the individual class codes.

Credibility—The degree of reliance assigned to a certain body of data, expressed as a weight ranging from 0 to 1.

D

Derived by Formula Pure Premiums (DBFPP)—See **Pure Premiums Derived by Formula (DBFPP)**.

Designated Statistical Reporting (DSR) Level Premium—The standard earned premium that would result if business were written at NCCI state-approved loss costs or rates instead of at the company rates.

F

Financial Call Data—Data submitted annually to NCCI by carriers, which includes premium, losses, claim counts, and expense data valued as of December 31 of the prior year. This data is aggregated by year and by state and is used in aggregate ratemaking analysis.

I

Indicated Pure Premium (IPP)—See **Pure Premium Indicated by Experience (IPP)**.

Individual Class Experience Exhibit—An exhibit in class ratemaking that displays the adjusted experience by class used to determine loss costs or rates.

L

Loss Adjustment Expense (LAE) —Expenses of an insurance company related to the handling of claims. Examples include the costs of investigating cases, representing an employer before bodies that adjudicate claims, and defending lawsuits, as well as other settlement costs.

Loss Cost—The portion of workers compensation rates that is allocated for the payment of losses, and not for coverage of carrier expenses. Some states include loss adjustment expense and loss assessments in the definition of advisory loss costs, which are the benchmark provisions filed by the rating organization. Carriers can use these loss costs as the basis for their rates, typically adjusting them for expenses with a loss cost multiplier.

Loss Cost Multiplier—An adjustment to the loss cost that takes into consideration business expenses and profit. The loss cost multiplied by the loss cost multiplier equals the desirable premium to charge for coverage.

Loss Development Factors—Factors that estimate how much the ultimate settlement value of a group of claims will change between today and when all claims are finally closed.

Loss On-Level Factors—Factors that adjust past loss experience to the proposed level. The historical loss data is adjusted to reflect the latest approved benefit levels in the state.

M

Manual-to-Standard Ratio—A ratio that is determined by industry group in each state and takes into account premium gained or lost through experience rating.

N

National Pure Premium (NPP)—See **Pure Premium Indicated by National Relativity (NPP)**.

P

Policy Year—The year of the policy effective date. Policy year financial results summarize experience for all policies with effective dates in a given calendar year period.

Premium Development Factors—Factors that adjust reported values for past policies to their estimated ultimate final premium value.

Premium On-Level Factors—Factors that adjust historical premium data to the current approved levels in the state.

Present on Rate Level Pure Premium (PORL)—See **Pure Premium Present on Rate Level (PORL)**.

Pure Premium—In general, the portion of a premium that covers losses and loss adjustment expenses but no other expenses. Pure premium is the ratio of losses to payroll in increments of 100.

Pure Premium Indicated by Experience (IPP)—The projected pure premium for a class based on the latest state experience. It is derived from *Statistical Plan* data adjusted for trend, loss development,

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benefit changes, loss adjustment expense, assessments, and the overall indication, and it is expressed in units of exposure. This is an intermediate value used in deriving the class loss cost.

Pure Premium Indicated by National Relativity (NPP)—The projected pure premium for a class based on national experience. This is an intermediate value used in deriving the class loss cost.

Pure Premium Present on Rate Level (PORL)—The projected pure premium for a class based on current approved loss costs. This is an intermediate value used in deriving the class loss cost.

Pure Premium Derived by Formula (DBFPP)—A credibility-weighted combination of indicated, present on rate level, and national pure premiums.

Pure Premium Underlying Loss Costs (or Rates)—The indemnity and medical pure premium underlying the final loss cost (or rate).

R

Rate—The basis for pricing insurance premiums, which is generally the cost per unit of exposure. The full rate includes the loss cost, the loss adjustment expenses, and the carrier's expenses.

S

Swing Limit—A limit on the percentage change, up or down, that a new class rate may vary from the existing rate for that class. The purpose of this limit is to avoid extreme fluctuations from year to year.

T

Target Cost Ratio—A value used only to derive rates. This provision accounts for expenses and is the primary difference between the loss cost and rate calculation.

Test Correction Factor—A factor used to ensure that the individual class code changes within an industry balance to the overall indicated industry group change and, subsequently, the overall statewide change.

Trend—The measurement of changes over time (experience periods) in items such as claim costs and claim frequencies. Trend does not include "development," which measures the changes in losses or premium over time for a given experience period. In ratemaking, the historical loss ratio is adjusted by a trend factor to estimate costs for the future policy period.

U

Unit Statistical Data—Statistical documentation that data providers submit to NCCI at the policy level to report premium, payroll, loss, and claim count information. It includes premium, payroll, and losses by state at a classification code level.