

**1300 Health Insurance General Provisions**

**1303 Individual Accident and Health Minimum Loss Ratio Standards [Formerly  
Regulation 42]**

**1.0 Authority**

This regulation is adopted and promulgated pursuant to 18 Del.C. §§2713(4), 2504(b) and 29 Del.C. Ch. 101 (Administrative Procedures Act)

**2.0 Purpose**

The purpose of this regulation is to establish minimum standards for determining the reasonableness of benefits provided under individual accident and health insurance policies in relation to premiums charged. Because of the different pattern of expenses inherent in group health insurance, blanket health insurance or health service plans, this regulation does not apply to these kinds of coverage.

**3.0 Contents of Rate Filings**

Each rate submission shall include an actuarial memorandum describing the basis on which rates were determined and shall indicate and describe the calculation of the ratio, hereinafter called "anticipated loss ratio," of the present value of the expected benefits to the present value of the expected premiums over the entire period for which rates are computed to provide coverage. Interest shall be used in the calculation of these present values only if it is a significant factor in the calculation of this loss ratio. Each rate submission must also include a certification by a qualified actuary that to the best of the actuary's knowledge and judgment the rate filing is in compliance with the applicable laws and regulations of Delaware and that the benefits are reasonable in relation to premiums.

**4.0 Previously Approved Forms**

4.1 Filings of rate revisions for a previously approved policy, rider or endorsement form shall also include the following:

- 4.1.1 A statement of the scope and reason for the revision, and an estimate of the expected average effect on premiums, including the anticipated loss ratio for the form.
- 4.1.2 A statement as to whether the filing applies only to new business, only to in force business, or both, and the reasons therefor.
- 4.1.3 A history of the experience under existing rates, including at least the data indicated in Section 5.0. The history may also include, if available and appropriate, the ratios of actual claims to the claims expected according to the assumptions underlying the existing rates. Additional data might include: substitution of actual claim runoffs 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; adjustment of premiums to an annual mode basis; or other adjustments or schedules suited to the form and to the records of the company. All additional data must be reconciled, as appropriate, to the required data.
- 4.1.4 The date and magnitude of each previous rate change, if any.

**5.0 Experience Records**

Insurers shall maintain records of earned premiums and incurred benefits for each calendar year for each policy form, including data for rider and endorsement forms which are used with the policy form, on the same basis, including all reserves, as required for the accident and health policy experience exhibit. Separate data may be maintained for each rider or endorsement form to the extent appropriate. Experience under forms which provide substantially similar coverage may be combined.

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The data shall be for all years of issue combined, for each calendar year of experience since the year the form was first issued, except that data for calendar years prior to the most recent five years may be combined.

**6.0 Evaluating Experience Data**

- 6.1 In determining the credibility and appropriateness of experience data, due consideration must be given to all relevant factors, such as:
  - 6.1.1 Statistical credibility of premiums and benefits, e.g., low exposure, low loss frequency.
  - 6.1.2 Experienced and projected trends relative to the kind of coverage, e.g., inflation in medical expenses, economic cycles affecting disability income experience.
  - 6.1.3 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.
  - 6.1.4 The mix of business by risk classification.

**7.0 New Forms**

- 7.1 With respect to a new form, benefits shall be deemed reasonable in relation to premiums provided the anticipated loss ratio is at least as great as shown in the following table:

Type of Coverage	Renewal Clause			
	OR	CR	GR	NC
Medical Expense	60%	55%	55%	50%
Loss of Income and Other	60%	55%	50%	45%

For Medicare supplement policies the anticipated loss ratio is at least 60%.

- 7.2 If satisfactory justification is submitted to the Department of Insurance for a policy form, including riders and endorsements, under which the expected average annual premium per policy is \$100 or more but less than \$200, the company may be permitted to subtract up to 5 percentage points from the numbers in the table above, or if less than \$100, subtract up to 10 percentage points.
- 7.3 The average annual premium per policy and the average anticipated loss ratio shall be computed by the insurer based on an anticipated distribution of business by all applicable criteria having a price difference, such as age, sex, amount, dependent status, rider frequency, etc., except assuming an annual mode for all policies (i.e., the fractional premium loading shall not affect the average annual premium or anticipated loss ratio calculation).
- 7.4 Definitions of Renewal Clause
  - OR —Optionally Renewable: renewal is at the option of the insurance company.
  - CR —Conditionally Renewable: renewal can be declined by the insurance company only for stated reasons other than deterioration of health.
  - GR —Guaranteed Renewable: renewal cannot be declined by the insurance company for any reason, but the insurance company can revise rates on a class basis.
  - NC —Noncancellable: renewal cannot be declined nor can rates be revised by the insurance company.

**8.0 Rate Revisions**

- 8.1 With respect to filings of rate revisions for a previously approved form, benefits shall be deemed reasonable in relation to premiums provided the following standards are met:

- 8.1.1 With respect to policies issued on and after the effective date of the revision, the standards are the same as for new forms, except that the average annual premium shall be determined based on an actual rather than an anticipated distribution of business.
- 8.1.2 With respect to policies issued prior to the effective date of the revision, both 8.1.2.1 and 8.1.2.2 as follows shall be at least as great as the standards for new forms:
  - 8.1.2.1 The anticipated loss ratio over the entire period for which the revised rates are computed to provide coverage;
  - 8.1.2.2 The ratio of 8.1.2.2.1 and 8.1.2.2.2; where
    - 8.1.2.2.1 is the sum of the accumulated benefits, from the later of the original effective date of the form or the effective date of this regulation to the effective date of the revision, and the present value of future benefits, and
    - 8.1.2.2.2 is the sum of the accumulated premiums, from the later of the original effective date of the form or the effective date of this regulation 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, and such accumulated benefits and premiums to include an explicit estimate of the actual benefits and premiums from the last date as of which an accounting has been made to the effective date of the revision. Interest shall be used in the calculation of these accumulated benefits and premiums and present values only if it is a significant factor in the calculation of this loss ratio.
- 8.1.3 Other methods, in addition to those in this Subsection, for new forms may be used to calculate rate revisions. However, the minimum anticipated loss ratio thus calculated must be at least as great as the standards for new forms, with consideration given to active life reserves, and such methods must be approved by the Insurance Commissioner.

## **9.0 Other Anticipated Loss Ratios**

- 9.1 Anticipated loss ratios different from those indicated in Section 8.1 and 8.2 will require justification based on the special circumstances that may be applicable.
  - 9.1.1 Examples of coverages that may receive special consideration are as follows:
    - 9.1.1.1 accident only;
    - 9.1.1.2 short term nonrenewable, e.g., airline trip; student accident;
    - 9.1.1.3 specified peril, e.g., cancer, common carrier;
    - 9.1.1.4 other special risks.
  - 9.1.2 Examples of other factors that may receive special consideration are as follows:
    - 9.1.2.1 marketing methods, giving due consideration to acquisition and administration costs and to premium mode;
    - 9.1.2.2 extraordinary expenses;
    - 9.1.2.3 high risk of claim fluctuation because of the low loss frequency or the catastrophic or experimental nature of the coverage;
    - 9.1.2.4 product features such as long elimination periods, high deductibles and high maximum limits.
- 9.2 Companies are urged to review their experience periodically and to file rate revisions, as appropriate, in a timely manner to avoid the necessity of later filing of exceptionally large rate increases.

## **10.0 Effective Date**

This regulation shall become effective December 17, 1984.