



GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

**RULES OF PROCEDURE
AUTOMOBILE SINGLE INTEREST INSURANCE
RATING PLAN FOR AUTOMOBILE FINANCING INSTITUTIONS**

The following Rules of Procedure govern the application for modified rates for automobile single interest insurance premium generated through a particular financial institution.

1. Basis of Promulgation

A. Term

Each approved modification shall be understood to be established for at least a term of one year, or until revised thereafter, with the prior approval of the Commissioner of Insurance, and to be applicable to the manual rates filed by the insurer with the Office of the Commissioner of Insurance for this class of business.

B. Multi-Policy Risks

In the event a risk involves two or more policies with different effective dates, the promulgated approved modification shall apply to such policies for the effective period of the modification.

C. Eligibility

The term "risk" as used in this Plan means the fire, comprehensive, or collision exposures of any one financial institution, as insured, which are to be rated for insurance over a particular purchaser's unpaid balance.

Any financial institution which generates an annual premium volume of \$250,000 or more, for each of the two preceding calendar years for the automobile single interest exposures to be rated shall be eligible for the application of this Plan.

2. Experienced Used

A. The experience modification shall be determined from experience generated by all the insurers which insure the financial institution in Puerto Rico to which this plan will be applied for the automobile single interest insurance to be rated, during the immediate two complete calendar years period prior to the effective date of the modification.

B. The modifications will be revised annually by the Office of the Commissioner of Insurance to become effective on July 1st of every year. This Office will determine the rate modifications by applying the procedure described herein regardless of whether the insurers request a revision of the modifications or not.

- C. Every insurer who wishes to rate automobile single interest exposures with a financial institution must apply the modification approved by the Office of the Commissioner of Insurance to the automobile single interest insurance to be rated for such financial institution.
- D. Every insurer writing automobile single interest insurance in Puerto Rico must submit to the Office of the Commissioner of Insurance the Statistical Report on Single Interest Automobile Physical Damage Insurance as prescribed in Circular Letter AM-5-V-1507-98 of May 18, 1998.

3. Calculation of Modification

The rate modification (reduction or increase) shall be determined by applying the following procedure:

- A. Determine the actual loss ratio by dividing the incurred losses, excluding allocated claim expense, by the earned premium adjusted to eliminate the effect of any experience modification applied.
- B. The corresponding modification will be calculated by applying the following formula, subject to a maximum credit of -25% and a maximum surcharge of +25%:

$$\% \text{ of modification} = \frac{\text{actual loss ratio}}{\text{expected loss ratio}} - 1 \times 100$$

*The expected loss ratio is .685

- C. No modification will be approved to a financial institution if the modification generated by applying the above formula falls between -5% and +5%, inclusive. In such case, the risks must be underwritten at manual rates, that is, without the effect of any modification.

4. Commissions

No commissions will be paid for the portion of the premium generated by the application of a surcharge to the manual rates.

5. Statistical Reporting

The experience generated by the insurer shall be reported to the statistical agent without the effect of any modification obtained from the application of this plan.