

FILING MEMORANDUM

ITEM B-1369—2001 BASIC MANUAL FOR WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE

(To be effective 12:01 a.m. on July 1, 2001 applicable to new and renewal business only.)

PURPOSE

The purpose of this filing is to introduce a new *Basic Manual for Workers Compensation and Employers Liability Insurance*. The Manual has been revised with particular emphasis on increasing the ability of users to quickly find the information they need in an electronic environment. In addition, we expanded our plain language approach and changed the appearance of the Manual to better meet our customers needs.

BACKGROUND

Like many organizations, NCCI has focused on maximizing the use of the internet for purposes of increasing product availability, effectiveness, and customer satisfaction. In 1999, many of the NCCI manuals were made available on our web site. Essentially, these existing manuals were simply moved to this environment without any alteration. We recognized then that changes were necessary to maximize customer usage of these products.

Previous *Basic Manual* rewrites (1995 and 1980) were conducted primarily to make substantive changes to the rules. This project, while recognizing the impact on the paper product, is primarily intended to make the Manual a more viable product for today's electronic environment. It also responds to carrier and agent concerns regarding simplification of the language and presentation of the material.

This filing is a paper document and therefore, does not fully recreate the appearance, functionality and features that will be available to the user of the new electronic *Basic Manual*. However, it does contain the same rules and information as the electronic version.

We identified three themes that provided the focus for improving this product.

1. **Web Friendly—Rewrite the Manual to be suitable for the electronic environment**

The structure of the existing Manual does not enable us to maximize the customer benefits that can be achieved through electronic presentation. For example, instead of presenting the rules material as currently configured in the existing paper Manual, we have created more screen "white space" on the proposed electronic version. A better-organized screen presentation responds to concerns that people tend to read approximately 25% slower on screen as compared to reading a paper document. Also, the user will appreciate the cleaner layout and use of tables.

Another "ease of use" feature involves the way in which the information will be "chunked." In reading a paper document, we are accustomed to coming to the end of a page and, if in mid-sentence, simply turning the page to continue. To the extent possible, the web version will present complete sections of text with a minimal need to scroll for additional information.

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A significant improvement is made with the introduction and use of hyperlinks. With a click of the mouse, the internet user will be able to quickly access information in other parts of the Manual. This feature will allow rule references to be linked to the *User's Guide* for an example that illustrates the application of that rule, or for additional information. Also, a user will be able to click on a term and link to a glossary that will provide a plain language definition of that term.

Linkage to external sites will also be possible. As an example, the USLH&W Act rule in the existing Manual has included a reference for many years to the specific US Code sections that contain the Act. With the electronic version of the new Manual, the reader can click on this reference and link to the Code for a complete presentation of the Act.

2. Plain Language—Use plain language without making changes to substantive intent

NCCI manuals fare very well in annual customer satisfaction surveys. However, some customers have requested that the rules be written in simpler language and presented in a way more suitable for a general audience. Because of changes in industry practices as well as insurance carrier and agency mergers, there has been a reduction in the number of experienced underwriters and agents. As a result, more novice level professionals are entering the insurance workplace today.

Our goal is to present Manual rules and information geared to the needs of both the entry-level and experienced user. As a result, the revised Manual not only contains the rules required for regulator approval but also serves as an improved reference and informational tool. Despite the changes to simplify the language, the intent of the rules has not changed.

The proposed Manual rules have been clarified, where necessary, by use of simplified text and by using shorter sentences and paragraphs. Other simplification features include use of bulleted lists instead of text when enumerating a list of items. The new Manual also uses a number of "If...Then" tables to present information that in its previous text format may have been confusing. An example of this is the way the anniversary rating date rules are presented in the new Manual. This is a topic that produces a significant number of technical questions each year from NCCI customers. By arranging the anniversary rating date rules into "If...Then" tables, a difficult topic is simplified. NCCI has demonstrated and reviewed this proposed Manual with a number of customers and the reaction to this type of presentation has been excellent.

The existing Manual contains 15 rules, numbered I through XV (Roman numerals). The proposed Manual contains only three rules. Despite this, none of the prior material has been eliminated. This approach is consistent with the other attempts to simplify the presentation of the rules in that the only rules needed are those impacting premium determination.

For example, consider the long-standing rule regarding the Three-Year Fixed-Rate Policy Option, Rule XI, in the existing Manual. We know that this is a seldom-used option today and have moved this rule into Rule 3 of the proposed Manual. The same treatment was given to Rule XIV, Domestic Workers. No longer a separate rule, this material has been moved to Rule 3 in the proposed Manual.

A summary of the three rules is as follows:

Rule 1—Classification Assignment

This rule includes the information provided in the existing Rule IV. It contains all the rules related to determining the appropriate classifications for an employer. It explains the classification system, as well as its purpose and procedures.

Rule 2—Premium Basis and Payroll Allocation

This rule includes the information currently provided in Rule V. It deals with all the payroll inclusion and exclusion issues, as well as the rules related to overtime, payroll limitations and executive officer payroll.

Rule 3—Rating Definitions and Application of Premium Elements

This rule includes all remaining elements that could impact premium. These items include the anniversary rating date rules, cancellation provisions, expense constant, minimum premium, and others.

3. *User's Guide*—Develop a *User's Guide* to provide additional information

As part of the effort to expand the *Basic Manual* into a plain language reference and informational tool, we are introducing a new and distinct companion product, the *User's Guide*. As part of the rewrite, we identified material within the existing 15 rules which is general information rather than rules. We made a distinction between "rules" which dictate the determination of premium and "general information" which does not impact premium determination but can be considered helpful to the user's understanding of the rules. The intent is to place this general information as well as other information into the *User's Guide*. We also identified some information that is filed in other manuals, such as the *Policy Forms Manual*, which need not be refiled as rules in the *Basic Manual*.

As a result of this change, the *User's Guide* is not being filed for approval. The *User's Guide* contains examples and other national and state information, but not rules. We have provided you a copy of the *User's Guide* for informational purposes only. NCCI will make periodic updates to the general information that would assist in the understanding of the rules. None of these informational updates will change the way premium is determined. Any changes involving rules that impact premium determination will always be accomplished through the item filing and approval process.

The following is a summary of the material that has been moved from the rules to the *User's Guide*, or that appears as new material in the *User's Guide*.

- **Explanation of Items—Standard Policy Information Page**

For many years, the *Basic Manual* has contained information in Rules III through VIII that follows the presentation of items on the Information Page of the policy. This information is intended to assist the carrier in preparation of the policy. Much of the information is general and instructional in nature and not related to the determination of premium. For that reason, it has been moved to the *User's Guide*.

- **Dispute Resolution and Appeals Process**

We've added this new material, not previously contained in the *Basic Manual*. This section of the *User's Guide* provides information regarding resolving a dispute when the insured and carrier disagree over the application of the Manual rules, classification assignment, experience modification factor, or other issue. It includes the role NCCI plays in attempting to resolve the dispute as well as generic information concerning the appeals process.

- **Reference Tables**

The *User's Guide* also contains several tables that present information in a summary grid manner. These include the following:

- Election of Coverages Reference Table
- Premium Elements Reference Table
- Program I and Program II Classification Comparison Tables
- Small Deductible Programs Reference Table
- State Rating and Pricing Programs Reference Table

- **Special conditions that affect coverage** (*Election of Coverages Reference Table*)
Current rules provide a summary list by state of the status of executive officers, partners, sole proprietors and members of limited liability companies. These lists are based on individual state laws, and are not rules. We feel this information belongs in the **User's Guide**. If a state law changes with respect to any of these items, the Election of Coverages Reference Table in the **User's Guide** can be updated quickly. Currently, such a change would require the development, filing, review and approval of a redundant state item filing that would simply mirror the change in state law. A number of regulators have indicated they prefer not to receive these types of filings.
- **Information related to various coverages** (*Workers Compensation and Employers Liability Coverage Summary Table and Additional Coverage Summary Table*)
The rules currently provide a description of workers compensation insurance, employers liability insurance and other states insurance coverage, as well as a number of additional coverages. These include the USL&HW Act and its extensions, as well as Admiralty Law and FELA information. In addition to the general descriptions, the existing rules provide information regarding the applicable section of the US Code and the endorsement. Since this information reflects the statutory nature of these coverages, they would not be subject to change or amendment by a NCCI rule filing. For that reason, we feel this information is appropriate for the **User's Guide**. In addition, we've presented this material in the form of an easy-to-read grid.

All of the tables above, except for the State Rating and Pricing Programs Table, are new. The Small Deductibles Program Table for example, provides a quick reference, one page summary of the programs detailed in the state pages of the 30 states represented.

- **Examples**

We've removed all the examples from the **Basic Manual** rules and placed them in the Examples Section of the **User's Guide**. One reason is because of the complaints we've received regarding some examples becoming outdated. A case in point is the example of the application of the anniversary rating date. The existing example references policy effective dates back to 1995. Since examples such as this have been in the filed rules, historically, some states have required an item filing would be necessary to simply change the dates. We haven't done this, limiting item filings to those that result in meaningful rules changes. Having the examples in the **User's Guide** provides the flexibility for NCCI to update them periodically without a filing.

In addition, we would like to use the information we have accrued based on the responses made to thousands of customer phone calls and letters received annually. In doing so, we can develop new or additional examples as needed to facilitate understanding of the rules.

PROPOSAL

It is proposed that the new **Basic Manual** as contained in Exhibits 1, 2-A, 2-B, and 3 be adopted. Here is a summary of each of the exhibits included in this filing package:

Exhibit 1 contains the **Basic Manual** national rules in the new format. It also includes the revised Appendix. The Appendix contains premium discount tables, pro rata and short rate cancellation tables, and increased limits tables. None of this information has changed from the existing Manual.

Exhibit 2-A is a summary of the classifications whose descriptions contain a reference to a particular rule name or number. These references have only been updated to identify references to new rules.

Exhibit 2-B is the complete Classification Section of the Manual, with the changes cited in Exhibit 2-A contained in the text.

Exhibit 3- A contains the North Carolina state special classifications and rules. As part of this rewrite, only the national rules and any accompanying state special rules were changed. No changes were made to any special rating programs.

Exhibit 3-B contains the North Carolina special rules applicable to assigned risks in this State, including the ***North Carolina Workers Compensation Insurance Plan***.

It is proposed that this Item become effective July 1, 2001 for all new and renewal business.

Exhibit 4 is the side-by-side comparison of the present and proposed national rules including explanatory comments. This exhibit is for your information only, and will assist in the review of the item filing, particularly in identifying the changes and documenting where material has been moved. No side-by-side comparison was developed for the state special rules since most of them are adaptations of, or exceptions to, the national rules.

Additionally, the paper and electronic versions of the new ***Basic Manual*** will contain references alerting the user to the availability of more information. The references, such as “refer to” will periodically be updated or added. However, the references will not be filed for approval since they do not impact rules and simply refer the user to another section of the national or state special pages of either the ***Basic Manual*** or ***User’s Guide***.

For your information, a sample copy of the ***User’s Guide***, including North Carolina specific instructions and a limited Glossary are included. The ***User’s Guide*** and Glossary, as well as Exhibit 4, are not part of the Item filing proposal.

IMPACT

There will be no premium impact as a result of the new Manual. We anticipate that the new Manual, particularly in its electronic format, will enhance understanding of the rules and procedures related to workers compensation insurance. The focus has been on development of a product which fulfills the need for a filed and approved set of rules while also presenting the material in a manner more suitable to electronic viewing and use by all customers. Changes to the rules were limited to a plain language simplification with no substantive change in intent.

IMPLEMENTATION

In order to implement this Item, the revised ***Basic Manual for Workers Compensation and Employers Liability Insurance*** as shown in Exhibits 1, 2, and 3 should be approved effective July 1, 2001 for all new and renewal business.