New York State Department of Financial Services
Premium Rate Approval - Decision Summary

Insurer:	Nippon Life Insurance Company of America
Filing Type:	Section 3231(e) Prior Approval Filing
Effective Date:	January 1, 2012 to December 31, 2012
SERFF Tracking Number:	NLAM-127364367
Lines of Business:	Small Group PPO and HD HSA Compatible PPO
Affected Members:	5,400 members
Affected Premiums:	Approximately $33 million
Rating Structure:	Monthly rolling rates

Summary:

	Requested	**Approved**	**Reduction**
Year Over Year			
First Qrt 2012	+24.0%	+16.7%	-7.3%
Second Qrt 2012	+23.7%	+16.4%	-7.3%
Third Qrt 2012	+13.3%	+6.6%	-6.7%
Fourth Qrt 2012	+13.1%	+6.4%	-6.7%
Total Year	**+21.5%**	**+14.3%**	**-7.2%**

The analysis included the following "requested" versus "approved" assumptions for the various parts of the application:

		Requested	Approved
1.	Annual Claim Trend Rates	9.6%	9.6%
2.	Administrative Expense Ratio	13.55%	13.55%
3.	Profit Objective (percent of premium, pre-tax)	4.45%	2.5%
4.	Medical Loss Ratio (MLR)	82%	83.95%

History:

Nippon Life is marketing its products to two types of small groups, including (1) foreign individuals working for Japanese and Korean firms, and (b) traditional small group firms. During calendar year 2010, the distribution between these two types of small groups was 63%/37% respectively.

On January 1, 2011, Nippon Life introduced a rate adjustment of -18.0%. The impact on the Japanese/Korean small groups was negligible, but the impact on the traditional small groups was significant. Membership in the traditional small group plans grew from 677 members as of December 31, 2010, to 4,489 members as of September 31, 2011, for a distribution of 27%/73%. It is estimated that this distribution would be 25%/75% by December 31, 2011.

As a result of the rate adjustment of -18.0% on January 2011, all small groups renewing during calendar year 2011 received rate reductions, averaging -5.2%. For small groups sold prior to

January 2011, the overall recommended rate action from 2010 rates to 2012 rates would be +6.4%.

Analysis:

The Department reviewed the material that Nippon Life submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, profit objectives, and the development of the needed rate change, as well as comparisons to similar historical data in each of these areas. The Department also considered the insurer's overall solvency and ability of the insurer to meet its obligations after the Department's decisions.

Financial Experience Data:

For the latest claims experience period (July 2010 – June 2011), loss ratios were 50.4% for the Japanese/Korean business, 82.4% for the traditional small groups, for an aggregate ratio of 67.1% for all small groups. The loss ratios have been favorable for the Japanese/Korean business year after year, due to the fact that these individual go back to their native countries for medical services when serious medical problems arise.

Based on these loss ratios, the rate action on Japanese/Korean business would be about a -30% reduction, while the rate action on traditional small groups would be about a +15% increase. Premium rates for both types of groups are however identical, as required under community rating regulations, and an average rate action must be determined, applicable for all groups.

Annualized Claim Trend Rates:

Nippon Life submitted an annual claim trend are of +9.6%. The Department finds this rate to be reasonable.

Seasonality Element:

In addition to the annual claim trend factor above, the analysis of the claims experience reflects a seasonality element, based on the fact that the claim experience of new members in the early months of duration tends to be favorable and such claims experience does not mature until about 6 months after issue. Typically, seasonality does not play a significant role because the number of new members tends to be relatively minimal compared to existing members. However, due to the massive infusion of new business during calendar year 2011 resulting from the -18.0% reduction in premium rates, new business in calendar year 2011 accounts for about 50% of all member months during the July 2010 – June 2011 experience period. Accordingly, the Department introduced an adjustment factor on incurred claims to reflect the impact of such seasonality element.

Administrative Expense Ratio:

Nippon Life assumed an administrative expense ratio at 13.55%. The Department finds this assumption to be reasonable and consistent with similar expense ratios for other carriers.

Profit Objectives:

Nippon Life requested a pre-tax profit objective at 5.65% of premiums, which Nippon Life reduced to 4.45% for the impact of investment income at 1.20% of premiums. The Department recommends a pre-tax profit objective of 2.5% of premiums. When combined with the investment income and income taxes, the net after tax ROE would be about 15% of the required surplus on this line of business (about 15% of premiums). This recommendation would have an impact of -3.0% in the rate adjustment as of January 1, 2012.

Medical Loss Ratio (MLR)

With the administrative expense ratio of 13.55% and an average profit margin of 2.5%, Nippon's projected loss ratio will be 83.95%.

Distribution of Business:

As discussed above, a major shift has occurred in the distribution of membership between the Japanese/Korean business and the traditional small group business. An important assumption is the projection of such a distribution for renewals in calendar year 2012. While Nippon Life assumes that the traditional small group business would account for 81% of total business, the Department is assuming that this traditional business would account for only about 75% of total business, as this traditional business is more impacted by the level of renewal actions and heavier lapses are anticipated. This difference in assumptions account for the other -3.0% reduction in the rate adjustment as of January 1, 2011.

Decision:

Based on the analysis as described above, the Department finds the rate actions requested are unreasonable and recommends a reduction as reflected in the chart above.

.