

SERFF Tracking Number: NVAC-125937334 *State:* Arkansas
Filing Company: NOVA Casualty Company *State Tracking Number:* EFT \$100
Company Tracking Number: OPAR08-001RRF
TOI: 05.1 Commercial Multi-Peril - Non-Liability *Sub-TOI:* 05.1004 Manufacturers Output
Portion Only
Product Name: Initial Capital Assets (Output Policy) Filing
Project Name/Number: Initial Capital Assets (Output Policy) Filing/

OP-2004-OTIPF; OP-2005-OFOTR; CL-2003-
OCH1; OP-2007-OTRP1

Advisory Org. Circular: VARIOUS

Deemer Date:

Reference Title: CAPITAL ASSETS (OUTPUT POLICY)
Filing Status Changed: 12/10/2008
State Status Changed: 12/10/2008
Corresponding Filing Tracking Number:

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written any business or have any premium on the books, there will be no impact to any policyholders or the company at this time.

ADDED

3. Rule 8.B. Annual Premium Payment Plan Policies or Continuous Policies

We would like to file a minimum premium rule of \$500. A review of the industry standard indicates that the cost to issue and produce a capital assets policy averages between \$500 and \$750. Since we are new to the state and have not yet written any business or have any premium on the books, there will be no impact to any policyholders or the company at this time.

ADDED

4. Rule 8.C. Retained Minimum Premium

The retained minimum premium has been added for clarification purposes. The retained minimum premium of \$500 was used to correspond with Rule 8.A. & Rule 8.B. minimum premiums shown

ADDED

5. Rule 9.B. Additional Premium - Waiver of Premium

The additional premium amount waived will be \$15.00

ADDED

6. Rule 10.B. Return Premium - Waiver of Premium

The return premium amount waived will be \$15.00. However, any return premium due must be granted if requested by the insured.

STATISTICAL DATA

For our reporting of Statistical Data, we will be using Insurance Services Office (ISO). We would like to file to adopt ISO's current Capital Assets Statistical Reporting Data Manual at this time.

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Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Exempt from Review	Llyweyia Rawlins	12/10/2008	12/10/2008

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Disposition

Disposition Date: 12/10/2008

Effective Date (New): 01/01/2009

Effective Date (Renewal): 01/01/2009

Status: Exempt from Review

Comment:

This line is exempt from filing rates/rules in compliance with ACA 23-67-206 which states that P&C insurance for commercial risks, excluding workers' compensation, employers' liability and professional liability insurance, including but not limited to, medical malpractice insurance, are exempted from the rate/rule filing and review requirements.

Company Name:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):	Overall % Indicated Change:
NOVA Casualty Company	0.000%	\$0	0	\$0	0.000%	0.000%	0.000%

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Rate Information

Rate data applies to filing.

Filing Method: PRIOR APPROVAL
Rate Change Type: Neutral
Overall Percentage of Last Rate Revision: 0.000%
Effective Date of Last Rate Revision:
Filing Method of Last Filing: NEW PROGRAM

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):
NOVA Casualty Company	0.000%	0.000%	\$0	0	\$0	0.000%	0.000%

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Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Attachments Number:
Accepted for Informational Purposes	Proposed Company Exception Pages	NCC-OP-AR 1208	New	NCC-OP-AR 1208.pdf

**COMMERCIAL LINES MANUAL
DIVISION FOURTEEN – CAPITAL ASSETS (OUTPUT POLICY)**

STATE EXCEPTION PAGES

LOSS COST MULTIPLIER

The following loss cost multiplier will apply to the Insurance Services Office Capital Assets (Output Policy) loss costs:

Coverage	LCM
Capital Assets (Output Policy)	1.537

MINIMUM PREMIUMS

The following will supplement the respective Insurance Services Office Capital Assets (Output Policy) countrywide rules:

ISO Rule		PREMIUM
No.	Description	
8.	POLICY WRITING MINIMUM PREMIUM A. Prepaid Policies B. Annual Premium Payment Plan Policies or Continuous Policies C. Minimum Retained	\$500 \$500 \$500
9.	ADDITIONAL PREMIUM CHANGES B. Waiver of Premium	\$15
10.	RETURN PREMIUM CHANGES B. Waiver of Premium * * However, any return premium requested by the insured must be granted	\$15

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Supporting Document Schedules

Satisfied -Name: LCM Calculation **Review Status:** Accepted for Informational 12/10/2008
Purposes

Comments:

Attachment:

2006 AR Commerical Property Investment Income Exhibit.pdf

Nova Casualty Company

	Expense	
(1)	Commissions	17.0%
(2)	Other Acquisitions	6.1%
(3)	General Expense	7.2%
(4)	Taxes	3.000%
(5)	Profit	5.0%
(6)	Investment Income Offset	3.3%
(7)	Total	34.9%
(8)	Expected Loss Ratio	65.1%
(9)	Loss Cost Multiplier	1.537
(10)	Rating Plan ELR	0.477

Insurer Expense Experience
Commerical Property - Fire & Allied Lines
(000 omitted)

Year	(1) Direct Premiums		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Written	Earned	General Expense Incurred	Commission & Brokerage Incurred	Other Acquisitions Incurred	General Expense (3)/(2)	Comm & Brokerage (4)/(1)	Other Acquisitions (5)/(2)	Total Production (7)+(8)	
**2001	\$11,282,858	\$10,052,394	\$672,174	\$1,488,773	\$589,992	6.7%	13.2%	5.9%	19.1%	
**2002	\$15,524,184	\$13,612,625	\$790,710	\$1,984,631	\$684,178	5.8%	12.8%	5.0%	17.8%	
**2003	\$15,109,093	\$14,159,983	\$848,554	\$2,018,373	\$703,779	5.8%	13.4%	5.0%	18.3%	
**2004	\$14,694,001	\$14,707,341	\$906,398	\$2,052,114	\$723,379	6.2%	14.0%	4.9%	18.9%	
**2005	\$16,653,241	\$16,517,079	\$1,022,738	\$2,231,737	\$819,654	6.2%	13.4%	5.0%	18.4%	
5 - Year Average (2001-2005)						6.1%	13.3%	5.1%	18.5%	
3 - Year Average (2003-2005)						6.1%	13.6%	5.0%	18.5%	

Expense Summary

Actual Expenses								
	2001	2002	2003	2004	2005	Average		Selected
						3-Year	5-Year	
Commissions	13.2%	12.8%	13.4%	14.0%	13.4%	13.6%	13.3%	17.0%
Other Acquisitions	5.9%	5.0%	5.0%	4.9%	5.0%	5.0%	5.1%	6.1%
General Expenses	6.7%	5.8%	13.4%	6.2%	6.2%	8.6%	7.6%	7.2%
Taxes	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%
Profit								5.0%
Investment Income								3.3%
Total Expenses								34.9%
Expected Loss & LAE								65.1%
Total								100.0%

** AM Best Data - US PC Industry

**Estimated Investment Earnings on Unearned premium Reserves and on Loss Reserves
Commerical Property - ARKANSAS**

A. Unearned Premium Reserve

1. Direct Earned Premium	\$59,656
2. Mean Direct Unearned Premium Reserve	\$27,039
3. Deduction for Prepaid Expenses	

Commission and Brokerage Expense	17.0%
Taxes, Licenses & Fees	3.0%
50% of Other Acquisition Expense	3.0%
50% of Company Operation Expense	3.6%
Total	26.6%

26.6%

4. Deduction for Federal Taxes Payable	7.0%
5. (2) x [(3) + (4)]	\$9,092
6. Net Subject to Investment = (2) - (5)	\$17,947

B. Delayed Remission of Premium (Agent's Balances)

1. Direct Earned Premium	\$59,656
2. Average Agent's Balances and Uncollected Premium	11.1%
3. Delayed Remission = (1) x (2)	\$6,600

C. Loss and LAE Reserves

1. Direct Earned Premium	\$59,656
2. Expected Incurred Losses = (1) x 0.865	\$51,592
3. Expect Mean Loss Reserves = (2) x 0.736	\$37,975

D. Surplus

\$10,672

E. Net Subject to Investment = (A.6) - (B.3) + (C.3) + D

\$59,994

F. Average Rate of Return

5%

G. Investment Earnings on Net Subject to Investment (E) X (F)

\$3,000

H. Average Rate of Return as a Percent of Direct Earned Premium = (G) / (A.1)

5.0%

I. Average Rate of Return as a Percent of Direct Earned Premium After Federal Income Taxes = (H) X [(1.00) - (0.34)]

3.3%

J. Required Total Return on Premium

5.0%

K. Indicated After Tax Underwriting Profit Provision = (J) - (I)

1.7%

L. Selected After Tax Underwriting Profit Provision

1.7%

**Estimated Investment Earnings on Unearned premium Reserves and on Loss Reserves
Commerical Property - ARKANSAS**

Line A-1 - Direct Earned Premium

Direct earned premium from Nova 2006 Annual Statement - All Lines Combined

Line A-2 - Direct Unearned Premium Reserve

The mean direct unearned premium reserve is the average from Nova 2006 Annual Statement for all lines combined. This average is based on the direct unearned premium reserve as of 12/31/05 and 12/31/06

Line A-3 - Deduction for Prepaid Expenses

Production costs and a large part of the other company expenses in connection with the writing and handling of insurance policies, exclusive of claim adjustment expenses, are incurred when the policy is written and before the premium is paid. Therefore, the deduction for these expenses is determined by use of the provision for the expense used in our determination of the expected loss and LAE ratio.

Line A-4 - Deduction for Federal Taxes Payable

The Tax Reform Act of 1986 taxes 20% of the unearned premium reserve. At a corporate tax rate of 35%, this tax equals 7.0% (.20 x 0.35 = 0.070) of the unearned premium reserve.

Line B-2 - Delayed Remission of Premium (Agent's Balances)

The total agents balances (uncollected premiums due) amounts to 11.1%. This is from Nova's 2006 Annual Statement for all lines combined. This average is based on the average agent's balances as of 12/31/05 to 12/31/06.

Line C-2 - Expected Incurred Losses

The expected incurred losses are determined by multiplying the direct earned premium by the average expected loss ratio (including loss adjustment expenses).

Line C-3 - Expected Mean Loss Reserves

The expected mean loss reserve is determined by multiplying the expected incurred losses in line C-2 by the average ratio of the mean loss reserve to the incurred loss in the latest two available calendar years for this line of business. This data is based on industrywide data.

1. Direct Incurred for Calendar Year 2005	\$11,906,380
2. Direct Incurred for Calendar Year 2004	\$10,152,280
3. Direct Reserves as 12/31/2003	\$5,870,683
4. Direct Reserves as 12/31/2004	\$8,576,563
5. Direct Reserves as 12/31/2005	\$10,305,737
6. Mean Loss Reserves 2005 = .50 x [(3+4)]	\$7,223,623
7. Mean Loss Reserves 2004 = .50 x [(4+5)]	\$9,441,150
8. Ratio (6) / (1)	0.61
9. Ratio (7) / (2)	0.93
10. .5 x [(8) + (9)]	0.77
11. Estimated Reserve Discount	12.0%
12. Federal taxes Payable (% of Reserves) (11) x 0.35	4.2%
13. (10) x [1.0 - (12)]	0.736
14. Selected Ratio	0.736

Line D - Surplus

The surplus available for investment has been calculated as 20% of Nova's total surplus as of 12/31/06 from the 2006 Annual Statement

Line F - Average Rate of Return

The average rate of return has been selected by Nova as a reasonable projection based on current economic conditions.