

TO: MISSOURI DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGULATION

FROM: AMERICAN INSURANCE ASSOCIATION
MISSOURI INSURANCE COALITION
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA

RE: INSURANCE BULLETIN 16-03
REQUEST FOR COMMENT-PREMIUM STABILIZATION

DATE: MARCH 14, 2016

Per your request expressed in Insurance Bulletin 16-03, we are providing comments on your potential promulgation of a rule regarding premium stabilization. Specifically, you requested comments by March 17, 2016, on the following key issues:

1. The definition of premium stabilization practices- For the most part, most of insurer members are content with definition of premium stabilization that was set forth in Insurance Bulletin 11-02. We are fine with the wording. Another insurer noted that the definition should be defined as the practice intended to moderate a significant premium change on a segment or block of business. Premium stabilization is a temporary or limited duration practice and does not replace traditional underwriting and rating methodologies, which are based on actuarial standards and practices.
2. The extent to which premium stabilization practices comply with Missouri rating laws that generally provide that rates shall not be “excessive, inadequate or unfairly discriminatory” - In our opinion, since the final rate a policyholder ends up paying is the uncapped rate, premium stabilization does comply with the Missouri rating laws. Premium stabilization practices comply with Missouri rating laws because they are designed to transition rates over a reasonable period of time. Other carriers noted that rating making, while coming a long way with the use of actuarial science, is still not perfect. The rates are your best estimate based on many and varied factors. One never knows the true price of our product for months or years after the rates are set. If a rate indication is for a 5% increase or decrease, you might not take the full amount because it might not be fully accurate – you take part this year, then see if you take more next year. You would not want to take the full 5% decrease or increase, find out your assumptions were not 100% accurate, and then have to take a 2% increase or decrease the next year.
3. The circumstances under which premium stabilization practices are appropriate and permissible, if any - In our collective opinion, it is appropriate to cap the effects of any company initiated change (e.g. changes to base rates and/or rating factors). We believe premium stabilization features are individual company decisions based on their business model, and that they should not be dictated by the insurance department in a competitive environment. They may exist or not exist for various reasons and in certain situations. We are not in favor of a premium stabilization rule or regulation that is promulgated by the Department of Insurance that applies in all cases. This places undue constraints on the system and limits company flexibility to operate (and succeed or fail) based on its own business decisions. The stabilization feature is invoked on an individual risk basis when large changes in the rate are indicated due to a change in risk elements.

These features allow an insurer to move the rate toward the indicated one in measured fashion, assess future changes in risk, and prevent wide swings (and potentially inaccurate) in premium from one year to the next.

4. The circumstances under which premium stabilization practices are not appropriate, if any - We believe that premium stabilization practices are appropriate in most if not all circumstances and lines of insurance. In our opinion, companies should be able to make their own determination. Some companies do not cap changes that are due to the Risk Criteria Change. For example, a policyholder being surcharged at renewal due to an accident or conviction in the previous term, should receive a full amount of surcharge.
5. Those lines of insurance to which premium stabilization practices should be permitted - In our opinion, companies should be able to make their own determination. Others have expressed that at least in the commercial realm, where there are more sophisticated buyers of insurance, there should not be any or few limitations.
6. The appropriate duration of premium stabilization practices (e.g., by renewal cycle) - In our opinion, companies should be able to make their own determination. No time limit should be established due to the variety of circumstances likely to occur. For example, if a company was going through an insurance to value project, it could be argued the coverage increases should be phased in over a period of years, not in one large increase. Each company should be allowed to determine the time frame based on their evaluation of the impact. We believe that the maximum duration for premium stabilization practices should be a reasonable period of time standard rather than a specific number of years duration. The specific duration is going to vary based on the specific mechanism, for example renewal rate capping and transitional rate capping.
7. Any limitations on the practice of premium stabilization (e.g., percentage limitations) – As stated previously, in our opinion, companies should be able to make their own determination. For the most part, however, the original bulletin had sensible limitations and our member insurers generally support the continuation of those limitations. The original bulletin did not include percentage limitations on premium stabilization, and we agree with that approach. The appropriate rate cap percentages depend heavily on the extent to which the new and existing rates differ. However, the original bulletin did require that “the proposed premium stabilization plan, as filed, should be rate neutral or result in a rate decrease”. This makes sense, as rate stabilization plans should not be constructed so as to bias rate changes upwards, such as by limiting rate decreases more than rate increases. The original bulletin required that the proposed premium stabilization plan should be unambiguous and applied uniformly and fairly to all renewal business. This too makes sense. The original bulletin also required that the convergence with filed rates should be smooth. This also makes sense, and maximizes the benefit to both insurers and their policyholders.
8. The extent to which different consideration should be given to the two types of premium stabilization practices described herein – large internal rate changes versus the acquisition of new blocks of business - In our opinion, companies should be able to make their own determination. The greater the flexibility provided by any proposed rule the better. Although we believe that strict percentage limitations are not ideal, if these are in fact included in the final rules, higher rate caps and possibly a longer rate capping period should be allowed in transition rate capping. Rate

differences between two separate companies (not within the same insurer group) could be far more significant than between rate plan iterations of one company.

9. The extent to which it should be permissible for insurers to modify premiums for a policyholder, i.e., to minimize the rate change a policyholder experiences they are switched from one insurer to another through a merger, acquisition or inter-affiliate transfer - As stated before, in our opinion, companies should be able to make their own determination. We believe transition rate capping is particularly helpful to both policyholders and insurers. This is because, as mentioned above, rate plans developed independently by different insurers are very likely to produce significantly disparate rates +/-50% or more is not uncommon. Without transition rate capping, an insurer could essentially be sending a “Welcome to your new Insurance company – Here’s your +63% rate increase” letter to some of its newly acquired policyholders. Transition rate capping can also be necessary to avoid such impacts as an insurer develops new and more predictive rate plans. Significantly constraining the use of transition rate capping could limit the innovation of rate plans, as advancements in rate plans even within an individual insurer commonly produce significantly disparate rates.
10. Whether multiple premium stabilization practices should be permitted to be applied (simultaneously or subsequently) within the same book of business - In our opinion, carriers should be allowed to modify existing premium stabilization plans with subsequent rate revisions, and such modifications may include new premium stabilization plans. Any subsequent change to the rate-capping rule would be filed. Multiple stabilization practices should be permitted both simultaneously and subsequently. The original bulletin allowed insurers to modify existing premium stabilization plans in subsequent revisions, which, according to the bulletin itself – “allows for perpetual reset”. Simultaneous practices are necessary to address the impact that specific changes may have on a different elements of a rate or class. Insurers when using multiple stabilization practices should be clear and transparent in their filings as to the reasoning.
11. Filing requirements and supporting documentation for the transparent disclosure of premium stabilization practices within rate filings submitted to the Department – For the most part, most of our member insurers believe that the original bulletin provided sufficient guidance on this issue. The original bulletin required “disclosure of projected premiums, percentage changes, dollar changes, and number of policies impacted for each future renewal period. To prepare this disclosure, the insurer shall make the assumption that its current book of business is fully retained and renewed into the future, until the capping process ends.” It also prescribed tables of the rate stabilization impacts on capped policies, uncapped policies and total policies. We believe all these disclosure requirements are sensible, relevant and not onerous to produce. The original bulletin required that “All standard filing transmittal forms shall show the overall percentage and dollar rate impacts on an uncapped basis.” We think this makes sense – it avoids confusion as to exactly what rate changes are being proposed, and also ensures that the Department is notified of the ultimate rate increases that policyholders will see when the rate capping is completed. The original bulletin required that “when a rate-capping rule has lowered historical premiums, the insurer’s actuary shall attest that the actuarial indication does not redundantly measure rate need. The actuarial method to adjust premium to current rate levels shall first and explicitly adjust premium to remove the effects of rate-capping, and then adjust the uncapped premiums to current levels.” We believe this is actuarially correct and appropriate.

12. Filing requirements for corresponding rules detailing premium stabilization practices and methodologies - Capping rule should be included in the rate manual that details the application of rate- capping and specifies a. The caps; b. The formula or methodology for the rate-capping calculation.
13. Filing requirements regarding the detailed implementation of any planned premium stabilization practices - Some states require that the insurer should disclose the impact of the proposed capped rate changes over future renewal periods. The following guideline is from the Insurance Bulletin 11-02: ‘This disclosure shall include projections of premiums, percentage changes, dollar changes, and number of policies impacted for each future renewal period’. While we are fine with the original bulletin’s wording, we would prefer no specific requirement.
14. The extent to which information may be trade secret or proprietary – For the most part, premium stabilization plans should be transparent and not overly complex. We do not currently see a need to allow these plans to be trade secrets or proprietary; however, there may be in the future as innovation is encouraged in the industry.
15. Whether there should be any notice requirements to policyholders regarding future premium changes resulting from premium stabilization - In our opinion, companies should be able to make their own determination. Although a notice requirement may seem appealing for policyholders, such a notice would potentially cause confusion. Highly segmented rating plans have many elements that change due to exposure, new losses, new violations and the aging of variable to name a few. This means that it is not possible to meaningfully disclose what a policyholder’s premium might be. Providing information that will not accurately reflect future premium, will not only cause consumer confusion but will likely result in consumer complaints. Therefore, a mandatory notice requirement is problematic and should be avoided.

In conclusion, on behalf of the American Insurance Association, Missouri Insurance Coalition, National Association of Mutual Insurance Companies and Property Casualty Insurers Association of America, we look forward to working with the Department on this project and are available to serve on a related task force representing our collective members in Missouri’s insurance marketplace.