



## DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

### INSURANCE BULLETIN 20-01

#### Rate Stability Rules

**Issued:** February 20, 2020

*The following Bulletin is issued by the Missouri Department of Commerce and Insurance (“Department”) to inform and educate the reader on the specified issue. It does not have the force and effect of law, is not an evaluation of any specific facts or circumstances, and is not binding on the Department. See section 374.015, RSMo.*

**To:** All insurers writing personal and commercial lines of property and casualty insurance in Missouri.

**From:** Chlora-Lindley Myers, Director

**Re:** Rate stability rules in personal and commercial lines of property and casualty insurance policies

This Bulletin is issued to provide information regarding the use of rate stability rules, applicable to both personal and commercial lines of property and casualty insurance, but excluding workers’ compensation.

Insurers use rate stability rules to moderate rate and premium fluctuations that may occur due to the acquisition of new business or changes in rating plans for existing policyholders. Rate stability rules are also referred to as “transition rules,” “rate stability factors” or “rate-capping rules.”

By issuing this Bulletin, the Department is notifying insurers that it will not take enforcement action against an insurer, provided the insurer acts within or meets the guidelines set forth herein. This Bulletin is intended to supersede and replace Bulletin 16-05, which is hereby rescinded.

The Department will not take enforcement action against an insurer utilizing rate stability rules to modify rates or premiums so long as the rate stability rules meet the following guidelines:

- 1) The rate stability rules are applied to personal or commercial lines of property and casualty insurance, specifically excluding workers' compensation. Workers' compensation insurance is not included within the safe harbor provided under this Bulletin.
- 2) Rate stability rules are applied in the following limited circumstances:
  - (a) When an insurer makes significant and material revisions to its rating methodology, such as the implementation of a new model; or
  - (b) When an insurer obtains new business through acquisition or planned acquisition of a book of business from an unaffiliated insurer; or
  - (c) When an insurer transfers or receives new business from an affiliated insurer.
- 3) Policyholders cannot have more than one rate stability rule applied to their rates/premium during the same time period.
- 4) The insurer does not use rate stability rules to moderate premium adjustments from changes in the policyholder's risk profile. That is, rate stability rules are not used to moderate premium adjustments resulting from changes in coverage, exposure, or classification; or from normal variations in rating due to changes in policyholder characteristics. For example: changes in the age of drivers, changes in credit scores, homes or roofs and/or coverage limits.
- 5) An insurer's rate stability rules are only applied to policyholders who would otherwise experience a premium change of five percent or more. Meaning, the safe harbor provided under this Bulletin **does not** apply to rate stability rules intended to limit the policyholder's premium change to less than five percent at each renewal.
- 6) The insurer's rate stability rules are unambiguous and applied uniformly to all applicable business.
- 7) The insurer's rate stability rules are, in the aggregate, rate neutral or result in an overall rate decrease.
- 8) Rate stability rules are not in place, applied or utilized longer than five (5) years from the original effective date of the rate stability rule. In other words, the safe harbor provided under this Bulletin only applies to the temporary and limited use of rate stability rules.
- 9) An additional safe harbor will be given to companies that currently have a rate stabilization plan in effect that does not meet Guidelines 1 through 5 as set forth in this Bulletin. In this limited instance, an insurer shall have two (2) years from the issuance of this Bulletin to modify rate stability rules and/or rating plans, and where applicable, submit filings, reflecting the revisions.

- 10) The safe harbor provided under this Bulletin only applies when the insurer maintains sufficient information to document and validate the use of rate stability rules in accordance with Regulation 20 CSR 100-8.040. This information must be made available upon request by the Department, so that the Department may accurately reproduce premiums charged to policyholders.

Such information shall include, but is not limited to, rates and premiums charged for any prior terms, rates and premiums for the current term prior to the application of a rate stability rule, and the specific factors or modifications applied to the current term's rates and premiums.

The following guidelines apply to personal lines property and casualty and those commercial lines property and casualty products where the insurer **does not** fall within the scope of (or exercise) the filing exemption set forth in Section 379.321.6 RSMo.

- 11) All rate stability rules and documentation of the use of such rules by insurers are filed with the Department, along with the rates to which the rate stability rules will be applied.
- 12) The insurer must publicly disclose in the filing:
  - (a) The use of a rate stability rule; and
  - (b) The situation, as outlined in Section 2) of this Bulletin, that lead to the insurer's use of a rate stability rule; and
  - (c) The applicable business to which the rule will be applied; and
  - (d) The date on which the rate stability rule will be effective, when it will terminate and the number of renewals after which the rate stability rule will no longer apply, subject to the maximum duration specified in this Bulletin for the safe harbor; and
- 13) The insurer provides the Department the following information in its filing:
  - (a) The class or classes of risks to which the rate stability rule applies; and
  - (b) The insurer must detail how each rate stability rule is applied and must describe the formula or methodology for the calculation; and
  - (c) The overall percentage and dollar impact on a stabilized and non-stabilized basis.

This information may be provided on a confidential basis, so long as the insurer has separately submitted the confidential materials within SERFF and they are marked as confidential materials, specifying the legal basis for the confidentiality.

- 14) The insurer must affirmatively state within the filing that it will maintain sufficient information to document and validate the use of rate stability rules in accordance with Regulation 20 CSR 100-8.040. The insurer must also affirmatively state it will make such information available upon request to the Department, so that the Department may accurately reproduce premiums charged to policyholders.

Such information shall include, but not be limited to, rates and premiums charged for any prior terms, rates and premiums for the current term prior to the application of a rate stability rule, and the specific factors or modifications applied to the current term's rates and premiums.

To document this agreement, the filing containing the rate stability rule shall include an affirmative statement from the insurer that it will maintain sufficient information as specified herein.

Any questions or comments regarding this Bulletin should be directed to the Property and Casualty Section at 573-751-3365.

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