



April 30, 2018

Ms. Andrea Robinson, JD, MCM  
Compliance Advisor  
Enterprise Compliance and Ethics  
Chief Legal Office  
USAA Insurance  
9800 Fredericksburg Road  
San Antonio, Texas 78288

**Re: Request for No-Action Letter – Homeowners’ Insurance  
United Services Automobile Association, USAA-Casualty Insurance Company,  
USAA-General Indemnity Company, and Garrison Property and Casualty  
Insurance Company**

Dear Ms. Robinson:

The above referenced companies (collectively referred hereinafter to as “USAA Group”) submitted a request for a no-action letter on March 2, 2018, pursuant to Section 374.018<sup>1</sup>.

USAA Group is requesting the Department allow the USAA Group to use its existing rate stabilization rule until June 30, 2021. The existing rate stabilization rule is applicable to USAA Group’s homeowners’ insurance program. The USAA Group indicates the additional time is necessary to permit modifications to the IT systems to conform to the requirements specified in Bulletin 16-05. This timeframe would also allow current policyholders to reach their ultimate rates, under the existing rate stabilization rule, which was filed prior to Bulletin 16-05.

More specifically, the USAA Group is requesting the Department issue a no-action letter, stating it will take no enforcement action under Section 374.046 against the USAA Group for potentially utilizing rates which might otherwise be deemed excessive, inadequate or unfairly discriminatory in contravention of Section 379.318.4.

### **Section 374.018**

The Missouri Department of Insurance, Financial Institutions and Professional Registration (“DIFP”) has authority under section 374.018, to issue no-action letters related to the business of insurance in the state. A no-action letter is defined as “a letter that states the intention of the department not to take enforcement actions under section 374.046 with respect to the requesting insurer, based on the specific facts then presented and applicable law, as of the date a no-action letter is issued.” 374.018.1.

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<sup>1</sup> All references, unless otherwise noted, are to Missouri Revised Statutes 2016, as amended.  
301 West High Street, Room 530, P.O. Box 690 • Jefferson City, Missouri 65102-0690 •  
Telephone 573/751-4126 • TDD 1-573-526-4536 (Hearing Impaired)  
<http://www.difp.mo.gov>

An insurer requesting a no-action letter is under an affirmative obligation to make a full, true, and accurate disclosure of all information related to the activities for which the letter is requested, and each request must include complete copies of documents and shall identify all provisions of law applicable to the request. A no-action letter is not considered a statement of general applicability that would require promulgation by rule. The insurer seeking a no-action letter from DIFP has an affirmative obligation to make a full, true, and accurate disclosure of all information related to the request for the no-action letter.

### **Regulatory Background**

Rates for residential fire (homeowners) insurance in Missouri are subject to the provisions of Sections 379.316 to 379.361. Under Section 379.318, “rates shall not be excessive, inadequate or unfairly discriminatory.” Each of those rating standards has specific definitions prescribed to them within that same section of law.

As the insurance industry has evolved, particularly with regard to merger and acquisition activity and implementation of more advanced rating plans, a need arose for mechanisms to transition rating plan changes as those are applied to Missouri policyholders.

In response to industry requests, the Department issued Bulletin 11-02 on January 7, 2011. This Bulletin provided a regulatory safe harbor for insurers to utilize premium stabilization plans (also called rate capping or transitional rating plans). The regulatory safe harbor was based on a specific set of limited circumstances. Bulletin 11-02 was rescinded on January 12, 2015.

On February 2, 2016, the Department released Bulletin 16-03, a Request for Comment regarding Premium Stabilization. Subsequent to that Request for Comment, the Department held a public hearing again soliciting public comments regarding the use of premium stabilization rules or practices. On September 30, 2016, the Department issued Bulletin 16-05. In Bulletin 16-05, the Department provided a limited duration regulatory safe harbor under a set of specific pre-determined circumstances.

The Department recognizes other situations may arise that fall outside of the safe harbor extended in Bulletin 16-05. Nothing prevents or prohibits an insurer from seeking a no-action letter based upon circumstances which deviate from the pre-determined circumstances which form the basis of the regulatory safe harbor in Bulletin 16-05.

### **Discussion and Conclusion**

Under Missouri insurance law, insurers are prohibited from charging rates that are excessive, inadequate or unfairly discriminatory. Consumers have a reasonable expectation they will be charged the same rate as other similarly situated insureds. Consumers also have a reasonable expectation the Department is monitoring insurance companies to ensure they are not being charged excessive, inadequate or unfairly discriminatory rates. At the same time, the Department recognizes

significant changes in the market or rating plans can create significant rate disruptions which can result in negative impacts on policyholders.

With the issuance of Bulletin 16-05, the Department addressed those limited situations or circumstances that may warrant the use of transitional rating plans, balancing the competing public policy interests expressed in Missouri law of ensuring the financial solvency of insurance companies and protecting consumers against rates that are excessive, inadequate and unfairly discriminatory. In striking this balance, the Department was careful to limit the use of rate stabilization rules to a maximum of three years, when the disruption would result from an insurer's revisions to its own rating plan.

The USAA Group implemented its rate stabilization rules prior to the issuance of Bulletin 16-05. The safe harbor provided in Bulletin 16-05 allowed insurers to use rate stability rules within certain limited time periods but did not include the ability for insurers to continuously extend previously filed premium transition rules by submitting new filings. Bulletin 16-05 also allowed insurers to apply rate stability rules when an insurer makes revisions to its rating plan but not when premium changes result from changes in coverage, exposure, or classification, or normal variations in rating due to changes in policyholder characteristics over time. The original transition plan filed by the USAA Group contained no explicit limit on the number of policy periods needed to transition a policyholder to the full premium. The original transition plan also limited the total premium change at renewal to +/-25%, which includes the impact of rate changes and normal variations such as increases in coverage due to updated rebuild cost estimates and the impact of dwellings aging one year. The USAA Group undertook its original rate action and transition plan without knowing Bulletin 16-05 would be issued. The company could not anticipate the parameters of the regulatory safe harbor that Bulletin 16-05 would set forth.

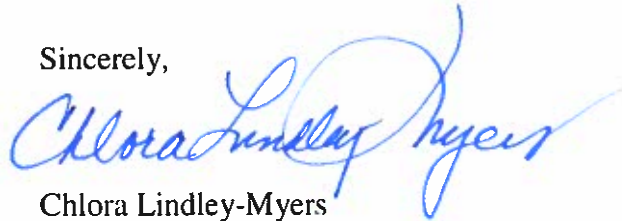
While the USAA Group rate stabilization rules have now been in effect for nearly two years, 14% of policyholders in the group still have not transitioned to the full premium, with 54% of the policyholders in USAA General Indemnity Company still receiving capped premiums. To move these policyholders to the full premium in one rating cycle would adversely impact the USAA Group policyholders and potentially lead to significant policyholder displacement.

Therefore, for the reasons cited above, the Department affirms through the issuance of this no-action letter that it will not bring an enforcement action under Section 374.046 against the USAA Group based on its implementation of the transition plan. Specifically, the Department states it will permit the USAA Group until June 30, 2020 to fully implement the rate stabilization rules as originally contemplated in the USAA Group's homeowners' insurance product submission originally filed with the Department on April 20, 2016 and identified by SERFF Tracking Number USAA-130189292. This additional time will ensure USAA Group insureds are not adversely impacted by an unplanned acceleration of the remainder of the transitional rate. It does also, however, work towards finality to the rate stabilization rules so that all insureds will be charged the full, actuarially justified premium within two (2) years – no later than June 30, 2020.

This no-action letter and enforcement relief granted herein reflect the interpretation and position of the DIFP based solely upon the facts as presented by the USAA Group in its letter of March 2, 2018 and through subsequent correspondence with the Department.

The relief issued by this letter does not excuse any other persons or insurers from compliance with any applicable Missouri laws. This letter does not create or confer any rights or obligations on the Department or other insurers subject to the provisions of section 379.318. As with all no action letters, the relief offered in this no-action letter shall remain in effect as long as there is no change in material fact or law or the discovery of a material misrepresentation or omission made by the USAA Group concerning the specific actions that are the subject of this letter. The determination of materiality shall be in the sole discretion of the Director.

Sincerely,



Chlora Lindley-Myers

CLM:aln