

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

### **INSURANCE BULLETIN 16-03**

#### **Request for Comment – Premium Stabilization**

**Issued:** February 2, 2016

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To: All insurers writing property and casualty insurance in the State of Missouri,  
producers and any other interested stakeholders

From: John M. Huff, Director

Re: Request for Comment – Premium Stabilization

The Department is considering promulgating rules regarding the use of premium stabilization rules or practices by property and casualty insurers. Premium stabilization is generally understood to be a 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.

Premium stabilization is generally used in two circumstances. The first circumstance is when significant changes to the insurer’s base rates may result in large premium changes (increases or decreases) to policyholders. An insurer will utilize premium stabilization to phase in an indicated or needed rate change to avoid policyholder rate volatility. The second circumstance is

when an insurer significantly modifies its rating systems or when an insurer merges or acquires business from a different insurer (either within the same group of affiliated companies or outside of the group). In this instance, the company may utilize what are referred to as “transitional rules” to effectively accomplish the same moderation of premium changes.<sup>1</sup>

Previously, the Department had issued [Bulletin 11-02](#), “Personal lines premium stabilization of renewal policies”. [Bulletin 11-02](#) expired on December 31, 2012 and was formally rescinded on January 12, 2015.

The Department is considering the regulatory issues and concerns related to premium stabilization practices. The Department is issuing this Bulletin specifically to solicit public comment, gather additional information and determine how best to proceed.

Interested parties are asked to submit comments regarding the use of premium stabilization practices in the State of Missouri **no later than March 17, 2016**. Comments should be submitted to: [marketregulation@insurance.mo.gov](mailto:marketregulation@insurance.mo.gov).

The Department is specifically seeking comment on the following key issues:

- The definition of premium stabilization practices;
- 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”;
- The circumstances under which premium stabilization practices are appropriate and permissible, if any;
- The circumstances under which premium stabilization practices are not appropriate, if any;
- Those lines of insurance to which premium stabilization practices should be permitted;
- The appropriate duration of premium stabilization practices (e.g., by renewal cycle);
- Any limitations on the practice of premium stabilization (e.g., percentage limitations);
- 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;
- 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;
- Whether multiple premium stabilization practices should be permitted to be applied (simultaneously or subsequently) within the same book of business;

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<sup>1</sup> Paraphrased from the National Association of Insurance Commissioners (NAIC), Casualty Actuarial and Statistical Task Force (CASTF) [Price Optimization White Paper](#). [NAIC CASTF White Paper](#)

- Filing requirements and supporting documentation for the transparent disclosure of premium stabilization practices within rate filings submitted to the Department;
- Filing requirements for corresponding rules detailing premium stabilization practices and methodologies;
- Filing requirements regarding the detailed implementation of any planned premium stabilization practices;
- The extent to which information may be trade secret or proprietary;
- Whether there should be any notice requirements to policyholders regarding future premium changes resulting from premium stabilization.

Subsequent to the written comment period, the Department will hold a public hearing to discuss all comments received and to allow further comment and discussion from interested parties.

For those wanting additional information or clarification regarding this Request for Comment may contact Angela Nelson at 573-751-2430 or via email at [angela.nelson@insurance.mo.gov](mailto:angela.nelson@insurance.mo.gov).

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