

Jeremiah W. (Jay) Nixon
Governor
State of Missouri

Department of Insurance
Financial Institutions
and Professional Registration
John M. Huff, Director

INSURANCE MARKET REGULATION DIVISION

To: All insurers licensed to sell property and casualty insurance.
From: Joan Dutil, Property and Casualty Section Manager
Re: Rate Capping/Limitations in Personal Line Insurance
Date: February 22, 2010

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) provides this notice to give carriers direction as to how they may implement rate limitations on renewal business in personal lines auto and homeowners insurance rate filings. While rate limitations or caps may stabilize dramatic rate changes, they could pose several potential problems, including inadequacy or excessiveness of rates and unfair discrimination, in that two like exposures could be charged different rates based on different levels of rate capping. In addition, Missouri law only allows carriers to modify rates based on differences among risks that can be demonstrated to have a probable effect on losses or expenses.

The DIFP has had ongoing discussions internally and with carriers to determine how rate capping can be implemented in a way that avoids the above problems. This complex issue needs more study and more time is needed to develop DIFP rules. Over the next twelve months, the DIFP will convene a working group comprised of consumer representatives, insurance producers and industry to discuss and make recommendations to the Director as to the long-term role of rate capping. In the interim, the DIFP will allow limited rate capping of personal lines insurance rates charged to renewal business in the following manner.

As used in this guideline, “rate limitation” means a rule in a rating/underwriting plan that reduces rate increases of renewal business on an exposure-by-exposure basis where such rate increases are caused by changes in the risk classification of the exposure or changes in the rating plan or both. “Rate limitation” also includes those cases where rate reductions are performed policy-by-policy.

Personal lines insurers may include a rate limitation provision in their rating/underwriting plan under the following circumstances:

- The proposed rate limitation plan must be unambiguous and must be applied uniformly and fairly to all renewal business.
- The proposed rate limitation plan must be temporary and must not extend more than four years.

Carriers that are already using a rate limitation plan as of the date of this notice will be presumed to have a rate limitation plan effective date of January 1, 2010 for the purposes of determining the duration of the plan. Carriers that are already using a rate limitation plan as of the date of this notice may amend the plan to comply with this guideline, but doing so will not change the January 1, 2010 effective date.

The Rate Capping Working Group is charged with making recommendations with options that address the use of rate capping for personal lines insurance policies in Missouri for the Director's consideration. Members of the working group include:

Gina Boone, Columbia Mutual Insurance Co.
Brenda Cude, University of Georgia and NAIC Consumer Representative
Joe Downs, Farmers Insurance
Charles Burhan, Liberty Mutual
Calvin Call, Missouri Insurance Coalition
Brent Butler, Missouri Insurance Coalition
Larry Case, Missouri Insurance Agents Association
Stanley Adamson, Missouri State University
Mary Kempker, DIFP
Joan Dutil, DIFP
David Cox, DIFP
James Morris, DIFP

The first meeting of the working group was held February 19, 2010, from 10:00 a.m. – 12:00 p.m. in the Truman State Office Building, Room 850.

The DIFP looks forward to working with all affected parties to develop a workable solution to this complex issue. If carriers have any questions about these new guidelines, they are encouraged to contact the Property and Casualty Section at 573-751-3365.