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Missouri Department of Insurance, Financial Institutions & Professional Regulation
Ms. Angela L. Nelson, MCM
Director, Division of Market Regulation and Chief Industry Liaison
P.O. Box 690
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RE: Insurance Bulletin 16-03
Request for Comment – Premium Stabilization

Dear Ms. Nelson:

First and foremost, I want to thank the Department for your past work on Premium Stabilization. You provided Liberty Mutual with the tools necessary to effectively manage its book of business and meet the needs of thousands of Missouri policyholders.

In the pages that follow, you will find Liberty Mutual's response to the questions asked in Bulletin 16-03.

<u>The definition of premium stabilization practices</u>

We agree with the Department's position that premium stabilization is intended to moderate a significant premium change on a segment or block of business.

We agree with the Department's position that premium stabilization should be permitted when:

1. A significant change to the insurer's base rates result in large premium changes (increases or decreases to policyholders).
2. An insurer significantly modifies its rating systems.
3. When an insurer merges or acquires business from a different insurer (either with the same affiliated companies or outside of the group).
4. We suggest that item # 3 be clarified to make eliminate possible confusion tied to:
    - Premium stabilization (referred to as "Transition rules") may be applied when an insurer moves affiliated business from a closed book of business with an older rating plan to an affiliated company with newer rating plan.
    - Premium stabilization ("Transition rules") may be applied when an agent (with ownership rights to his or her renewals) transfers a book of business (referred to as a "book transfer") from one insurance company to another company they represent.

We agree that rates should transition to the filed (uncapped) rate level over a finite period of time so as to smooth out the customer's renewal experience.

- The Department previously limited that transition period to four years. We recommend that the Department consider increasing this period to six years to spread out larger increases. For example, a policy whose change in rating plan generated a 100% premium difference would see minimum increases of at least 25% per year (not including the impact of future rate changes).

<u>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";</u>

The NAIC's White Paper on Price Optimization endorsed the use of Premium Stabilization in ratemaking. Premium stabilization practices do not lead to rates that are "excessive, inadequate or unfairly discriminatory" when companies follow the Department's previous guidance that:

1. The plan should be applied uniformly and fairly to all business.
2. The plan would result in individual policy premiums converging with their filed premium within a set number of years.

   Comment: The Department's previous position was that the convergence be completed in four years. Our recommendation would be that the Department consider increasing that period to a maximum of six years so as to permit more time to smooth out larger increases.

<u>The circumstances under which premium stabilization practices are appropriate and permissible, if any;</u>

As stated above, we believe that premium stabilization practices would be appropriate and permissible when:

1. A significant change to the insurer's base rates result in large premium changes (increases or decreases to policyholders).
2. An insurer significantly modifies its rating system.
3. When an insurer merges or acquires business from a different insurer (either with the same affiliated companies or outside of the group).

We suggest that item # 3 be clarified to make eliminate possible confusion tied to:

- When an insurer moves affiliated business from a closed book of business with an older rating plan to an affiliated company with newer rating plan.
- When an insurer performs a "book transfer" in which an agent (with ownership rights to the business) moves a book of business from one carrier to another.

<u>The circumstances under which premium stabilization practices are not appropriate, if any;</u>

No comment.

<u>Those lines of insurance to which premium stabilization practices should be permitted;</u>

The Department previously permitted rate stabilization for personal lines which it defined as private passenger auto (including motorcycle) and non-commercial dwelling (including dwelling fire and allied lines, homeowners, mobile homeowners, condo, renters, and earthquake.

We recommend that the definition of Personal Lines be broadened to include recreational vehicles, classic cars, watercraft, personal umbrellas, and scheduled personal property so as to eliminate any possible confusion regarding those products.

As commercial lines rating plans change, we recommend that premium stabilization be expanded to include Commercial General Liability, Workers Compensation, Commercial Property, Commercial Auto, Business Owners Policies (BOP) and Commercial Umbrella.

<u>The appropriate duration of premium stabilization practices (e.g., by renewal cycle);</u>

The Department previously permitted a four year period for rate stabilization with the ability to modify existing plans with subsequent rate revisions. This provision permitted a perpetual reset.

We ask that the Department consider a period of four, five or six years to provide smoother transitions for customers with larger increases with the ability to re-file and reset premium stabilization plans with subsequent rate revisions.

<u>Any limitations on the practice of premium stabilization (e.g., percentage limitations);</u>

Rate plan changes and the transition of older, closed books of business to newer products with different rating methodologies may result in larger premium changes. Limiting increases and decreases to set percentages may not permit policies to reach their (uncapped) filed rate within four years. The use of percentage limitations would not be consistent with time limitations.

<u>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;</u>

Premium Stabilization tied to internal rate changes impact renewal customers who have an existing relationship with their insurance company. This differs significantly from the transfer of blocks of customers who don't have a relationship with their new carrier.

Transfers of blocks of business occur for a variety of reasons:

- A company insolvency
- The withdrawal of an insurance carrier from a state or a particular line of business
- An agent (who owns the rights to renewal business) is cancelled by one of his or her insurance companies
- An agent and one of his or her companies no longer meet the other's needs
- An insurance company is acquired by another carrier
- When an insurer merges or acquires business from a different insurer (either with the same affiliated companies or outside of the group).

In these cases, the ability to transfer blocks of customers with stabilized rates avoids market disruption, helps transition customers to a new company, and provides a smooth transition to fair and adequate rates.

We recommend that companies be permitted to employ separate premium stabilization plans as the needs of new block/book transfer customers differ from internal (renewal) customers. Separate plans following similar principles that require the insurer to reach the filed (uncapped) rate over a defined time period is in the best interest of the public.

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;

Please see my earlier response. Premium Stabilization, as described by the Department, places emphasis on stabilizing premiums for renewal customers whose company has introduced a new rating methodology or proposed a large rate increase.

Block transfers, mergers, acquisitions and book transfers by agents should be permitted to smooth the transition of policyholders moving from the rating methodology, products, and base rates of the previous company to the new company. Permitting stabilization improves the customer experience, reduces complaints to the Department, and encourages companies to fill needs caused by changes in the marketplace.

Whether multiple premium stabilization practices should be permitted to be applied (simultaneously or subsequently) within the same book of business;

Companies need the flexibility to vary premium stabilization practices as a book of business may be comprised of several sub-parts. One company's book might be a blend of renewal customers, business from an acquisition, business rolled from a legacy company into a newer company, and business obtained through book transfers. The origination of the book and relative pricing differences between those books might require different capping approaches throughout transition.

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;

Bulletin 11-02 previously required filing information and forms that were unique to Missouri. Their completion added significant time and expense to filings as new analysts and actuaries had to learn, develop and provide one-off analysis that changed from filing to filing.

We ask that the Department no longer require the information requested for points 6, 7, and 9 on page 2 and illustrated on pages 3-7 of Bulletin 11-02. The Department previously acknowledged that the information requested requires that a number of assumptions be made and that forecasts will be impacted by a number of variables including retention by premium stabilization range and rate movement in the marketplace.

We agree with Department's requirements in Bulletin 11-02 that companies provide:

- A manual rule detailing how premium stabilization is applied
- Exhibits listing the rate caps, the formula or methodology for the premium stabilization calculation, and the duration of the premium stabilization procedure
- A standard filing transmittal form that shows the overall percentage and dollar value of impacts on an uncapped basis.

In lieu of points 6, 7, and 9 on page 2 and the documents illustrated on pages 3-7 of Bulletin 11-02, we would ask the Department to accept an exhibit with the capped vs. uncapped value of the rate change to show that the premium stabilization portion of the filing is rate neutral (or negative) and a statement that the premium stabilization selections are designed to move policyholders to their filed (uncapped) rate level within the agreed upon number of years.

<u>The extent to which information may be trade secret or proprietary;</u>

Premium stabilization plans and factors are currently not treated as a trade secret or proprietary information.

<u>Whether there should be any notice requirements to policyholders regarding future premium changes resulting from premium stabilization.</u>

Any decisions to require notice requirements should be made with the understanding that they could undermine the purpose of premium stabilization and may not be in the best interest of the customer.

The overall customer experience is improved and market disruption reduced by smoothing out rate increases and decreases over a finite period of time. Providing notice regarding future premium changes lessens those benefits as some policyholders look to immediately realize larger savings and others look to forestall future increases. The result would be that premium stabilization would not be permitted to do its job and stabilize premiums for all impacted customers. It could potentially lead to higher rates as additional premium is required to offset the unrealized premium.

<u>Subsequent to the written comment period, the Department will hold a public hearing</u>

We look forward to attending and participating in the Department's development of an updated Premium Stabilization policy. At that hearing, Charles Burhan is prepared to testify that:

- Premium Stabilization helps to restrict price swings, a critical benefit for any cyclical business, especially one under pressure from both increased frequency and increased severity;

- By tempering that volatility, a book of business is less prone to churning which, if not tempered, results in renewed higher acquisition cost and degraded experience as more "green business" enters the portfolio, driving up costs.

- While customers are always welcomed to shop and compare, leaving a carrier after you have gained longevity discounts due to anomalous price swings that otherwise could be controlled through premium stabilization does not help policyholders;

- Premium stabilization is simply a more refined version of the business judgment carriers have always been encouraged to operate with, to wit, to not feel the urge to take every penny of justified rate but rather to think of the long-term needs of our policyholders.

Sincerely,

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