Missouri

Comments on Premium Stabilization

Requested in Bulletin 16-03

Below are comments regarding the use of premium stabilization practices in the State of Missouri:

- The definition of premium stabilization practices;
  We recommend the following revision be made to the premium stabilization definition provided in Bulletin 11-02:
  "Premium stabilization" means a rule in a rating/underwriting plan that smoothes premium changes across multiple renewal periods for renewal business on an exposure-by-exposure or a policy-by-policy basis where such premium changes are caused by changes in the rating or risk classification of the exposure or changes in the carrier's rating plan, or both.
- 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";
  Rate capping should not be considered "excessive, inadequate or unfairly discriminatory" if:
    - It is applied consistently and uniformly for all renewal business with no individual exceptions.
    - As the policy renews, the premium will increase or decrease and eventually converge to the fully-indicated, not inadequate nor excessive, premium level.
    - It is only applied to renewal business. While some insurers may stand up a new company to write just new business and that practice is allowed, others write new business within the same company where the renewal business is written. In both instances, new business is not subject to rate capping.
- The circumstances under which premium stabilization practices are appropriate and permissible, if any;
  For those members with large rate increases or decreases, rate capping provides a more gradual progression to their final premium for a given rate revision. Since new business is not experiencing a large increase or decrease in premium, there is no basis for rate capping for new business. However, upon the first renewal, all business is eligible for the rate cap.

  To minimize the rate change or premium level effect a policy holder experiences when:
    - The insurer is implementing or revising rating structures to promote rate equity and adequacy.
    - The insurer is implementing or revising coverages (*i.e. adjustment to Total Insured Value, changes in policy language that affect coverage*) to protect the financial security of the policy holders and/or to comply with regulations.
    - There are changes in the risk classification of the exposure (*i.e. as the policy ages, changes in home age and roof age will cause premium to change.*)
    - When policy changes occur mid-term, such as adding an operator or adding/deleting a vehicle for an Auto Policy, an increase/decrease in the coverage amount for a Homeowners or Renters Policy, or a change in the

number of exposures insured on the Umbrella Policy, the change in premium will be subject to the rate cap as calculated at the prior renewal.

By mitigating the impact the rate change will have on policyholders, who would otherwise experience the highest rate changes, insurers seek to reduce policy holder disruption.

- The circumstances under which premium stabilization practices are not appropriate, if any;
  Major coverage changes initiated by the policy holder

- Those lines of insurance to which premium stabilization practices should be permitted;

  Personal Lines Insurance (Private Passenger Auto, Umbrella, Owners, Unit Owners, Allied Lines, Fire, Renters)

- The appropriate duration of premium stabilization practices (e.g., by renewal cycle);

  Perpetual rate capping should be allowed as long as the insurer fully discloses the rate impacts on an uncapped basis.

- Any limitations on the practice of premium stabilization (e.g., percentage limitations);

  As long as the percentage limitation is fully disclosed, the percentage of premium stabilization should be determined under insurers' discretion.

- 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;

  We don't have any specific comments on this.

- 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;

  Insurers should be allowed to apply a rate cap to changes in premium due to inter-affiliate transfers.

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

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Multiple premium stabilization practices should be permitted to be applied. Removing a rate cap from a previous filing to implement a new filing could result in significant and unnecessary premium disruption for individual policy holders.