BEFORE THE DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
STATE OF MISSOURI

COMMENTS AND TESTIMONY
REGARDING PREMIUM STABILIZATION

TRUMAN STATE OFFICE BUILDING
301 West High Street
ROOM 520B
JEFFERSON CITY, MISSOURI 65102

APRIL 26, 2016

EXHIBITS

EXHIBIT	DESCRIPTION	PAGE
1	Notice of Hearing	5
2	Missouri Department of Insurance Bulletin 11-02	5
3	Washington Department of Insurance Rate Stability Rules	5
4	Missouri Department of Insurance Bulletin 16-03	5
5	Written Comments in Response to Bulletin 16-03	5
6	Supplemental Written Comments by Missouri Insurance Coalition	5
7	Written Comments by Liberty Mutual Insurance	5
8	Written Comments by State Farm Insurance	5

(Exhibit returned with transcript.)

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COMMENTS AND TESTIMONY REGARDING PREMIUM STABILIZATION held on April 26, 2016, between the hours of eight o'clock in the forenoon and six o'clock in the afternoon of that day, at the Missouri Department of Insurance, Financial Institutions and Professional Registration, 301 West High Street, Room 520B, Jefferson City, Missouri, before Sarah J. Pokorski, a Certified Court Reporter and Notary Public within and for the State of Missouri, in a certain cause now pending before the Missouri Department of Insurance, Financial Institutions and Professional Registration.

A P P E A R A N C E S

Panel:
John Huff
Jim McAdams
Rebecca Helton
Ross Kaplan
Angela Nelson
Brent Kabler
Jim Mealer
Julie Lederer

Witnesses:
Mark Johnston
Steve Witte
Charles Burhan
Jeff Estes
Mike Lane
Chuck Feinen
Kathy Popejoy
Brandon Koch

Court Reporter:
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IT IS HEREBY STIPULATED AND AGREED that the comments and testimony regarding premium stabilization may be taken in shorthand by Sarah J. Pokorski, CCR, a Certified Court Reporter and Notary Public, and afterwards transcribed into typewriting.

* * * * *

(Exhibit 1-8 marked for the record.)

(Starting time of the hearing: 9:02 a.m.)

MR. HUFF: Great. We're now on the record. My name's John Huff. I'm director of the Missouri Department of Insurance, Financial Institutions & Professional Registration. It is 9:02 on Tuesday, April 26, 2016. We're in room 520-B of the Truman State Office Building in Jefferson City, Missouri. The purpose of this hearing is to solicit testimony and information on the record from interested stakeholders as to the issue of premium stabilization practices. Generally speaking, premium stabilization practices are intended to moderate significant premium changes on a block of business. They are also sometimes referred to as rate capping or transitional pricing rules. Specifically for purposes of our hearing today, we are soliciting information as to whether the Department should consider formally promulgating rules related to premium stabilization practices for property and casualty insurance products in the state of Missouri. Over the last year in particular, we've seen increasing attention being paid to property and casualty ratemaking practices. The federal insurance office, in its role as an insurance monitor, has indicated it will -- it will review the issue of the availability and affordability of private passenger automobile insurance. At the same time, the National Association of Insurance Commissioners -- NAIC -- has been reviewing industry practices. At the recent spring national meeting of the NAIC, the group formally adopted a white paper on price optimization. A working group has been formed to study the issue of big data and its use by insurers, regulators and other third parties. There are also working groups looking at specifically the questions of affordability and availability of auto insurance, and other groups evaluating the need for and ways of increasing transparency in the property and casualty market.

A hearing on this matter is not required by law. This is an option that the director -- I believe it's important that we have a public hearing to invite interested stakeholders and any member of the public to testify and to share their views regarding premium stabilization practices. In that regard, we've tried to structure a hearing that provides the best opportunity for all stakeholders to provide input to the Department as it considers its rulemaking responsibilities. The Department will consider all information and testimony given today, as well as any written comments submitted in conjunction with this hearing and its evaluation of this issue.

Before I begin, I would like to go through a few procedural or logistical matters for our hearing today. As you see, the Department has retained the services of a court reporter for this hearing. A transcript of today's hearing will be posted to the Department's website as soon as it is available. We have scheduled the hearing to conclude no later than twelve noon today. I do plan to take a ten-minute break at the top of each hour until we have concluded the hearing. For those first-timers to the Truman State Office Building, facilities are located near the elevators to the left of our hearing room. And there's a cafeteria and vending machines located one floor below the hearing room. Let me pause there and see if there are any logistical questions either from the regulators or from interested parties.

Seeing none -- seeing none, then I want to begin by introducing members of our department team who are participating in today's hearing. To my left is Jim McAdams, the deputy director of the Department and general counsel. To his left, Rebecca Helton, who leads our P&C rate form filing team, and Ross Kaplan, who supports the P&C team as legal counsel. To my immediate right, Angela Nelson, who's our division director for market regulation and our chief industry liaison. To her right is Dr. Brent Kabler, our chief statistician for the department. To his right, Jim Mealer, our chief market conduct examiner. And then to his right, Julie Lederer, our P&C chief actuary at the Department. Next, we'll introduce some special guests who joined us by phone. And I'll ask Angie Nelson to go through the list, if she would.

MS. NELSON: Wonderful. Thank you. We have invited a number of states to join us today by call, so I will just go through a list of those states. And for those folks on the phone, if you will just give an indication that you are on, and if you can give us an indication of the person -- at least one person's name, that would be wonderful. So I'll

start with Alabama.
MR. ANGELL: Charles Angell, deputy commissioner here.
MS. NELSON: Morning, Charles. Alaska.
MR. RICKER: Mike Ricker, property & casualty actuary.
MS. NELSON: Morning, Mike. California. Connecticut. Illinois.
MR. GERGER: Brett Gerger, property & casualty deputy director.
THE REPORTER: Can they spell their names, please.
MS. NELSON: We'll get them for you. Indiana.
MR. BEVERAGE: Richard Beverage, P&C actuary.
MS. NELSON: Iowa. Kansas.
MR. WINE: This the John Wine, assistant commissioner. We have Ken Abitz and Heather Droge, directors.
MS. NELSON: Thank you. Good morning, guys. Michigan. Minnesota.
MR. VIGLIATURO: Tammy Lohmann, filings director, and Phil Vigliaturo, property & casualty actuary.

MS. NELSON: Morning, guys. Nebraska. North Dakota. Ohio. Oklahoma. Rhode Island.

MR. MAKE: Ron Make for Rhode Island.

MS. NELSON: Good morning. South Dakota. Texas.

MS. BYCKOVSKI: J'ne Byckovski.

MS. NELSON: Good morning.

MS. BIKOWSKI: Morning.

MS. NELSON: Virginia.

MS. NICHOLS: Rebecca Nichols, deputy commissioner of the Property & Casualty Division and other staff members from the Department.

MS. NELSON: Morning, Rebecca. And Wisconsin. Okay. Have we had any other states join that I have not been able to announce? Okay. And are there any other interested parties that have joined us on the phone?

MS. SEGURA: Hillary Segura, PCI.

MS. NELSON: Morning, Hillary.

MS. SEGURA: Morning.

MS. NELSON: Any other parties? That concludes it. Thank you.

MR. HUFF: Thanks, Angie. For everyone joining us by phone today, please make sure you keep your phone on mute unless you're speaking, and please do not give us the dreaded hold button, because we will drop your call if we hear your music. We try to minimize background noise. Additionally, if you are speaking, please be sure you identify yourself and your affiliation so the court reporter can accurately reflect your comments or questions.

Just in terms of our agenda today, I will begin by identifying some documents which I intend to take official notice of. As I go through the documents, I will pause to see if anyone present or participating by phone has any questions or comments about those documents. Following that, Julie Lederer, our department's property and casualty actuary will provide a very short presentation on our general P&C ratemaking practices in Missouri to start our discussion today. And then Angie Nelson will give a brief overview of state regulatory actions related to premium stabilization. After that, we will take testimony from witnesses. We will start with those witnesses present in person or by phone who provided written comments. We will then proceed with testimony from other witnesses who have indicated a desire to testify. These witnesses will be heard in the order listed on the witness list. Witnesses may also be asked questions by the Department staff who are present with us this morning, or by other regulators who have joined us by phone. Let me just pause there and ask if anyone -- if everyone actually who intends to testify today has had the opportunity to -- to sign the witness list. Everybody signed up? We'll work from the list. Looks like that's the case. If you change your mind -- whoops.

MR. ESTES: I don't think we're aware of the witness list.

MR. HUFF: Okay. We have a witness list.

MS. NELSON: You're on it.

MR. ESTES: Oh, I'm on it. Good.

MS. NELSON: Charlie.

MR. ESTES: Charlie's on it.

MR. HUFF: Charlie's -- you want to be on it as well?

MR. ESTES: I'll be a friend of Charlie.

MR. HUFF: Okay. FOC. Okay. Anyone else? Okay. So if you change your mind, witness list is available for you. Just indicate that you have not signed it. We'll make sure you get an opportunity to testify. Just to try to put some parameters around the structure, I think we'll -- we'll keep moving fairly smoothly, but each witness will be allowed no more than ten minutes to offer testimony on the record. If any witness or other stakeholder wishes to make additional comments beyond that time limit, you, of course, are free to submit comments in writing by the close of business this Friday, April 29th, and then we'll close the record. If a witness is not substantially addressing the questions, or is only offering repetitive or cumulative evidence, I will, of course, exercise discretion to limit testimony to less than the full amount of time. I don't anticipate that will be an issue. I will use the information gathered, along with the information from other sources, to determine whether the Department will promulgate rules regarding premium stabilization practices, and if so, what the content of those rules will be. This in no way, shape or form alters the formal rulemaking process in the State of Missouri. This is whether we will promulgate rules, and if so, what the initial content will be. Let me pause there and see if there are any questions before we start.

If not, at this time, I intend to take official notice of comments and documents which will be entered into the record. Ross, I think you're going to help us make sure those are with the court reporter, which looks like you have. And are -- have these been posted yet, or not yet? They have been posted online. So Exhibit 1, the notice of the hearing for this proceeding, and the detailed description for the submission of comments incorporated into the notice. Exhibit 1 is hereby admitted into the record. Exhibit 2, Missouri Department of Insurance Bulletin 2011-02 addressing personal lines, premium stabilization of renewal policies which expired on December 31st, 2012, and was subsequently withdrawn. Exhibit 2 is hereby admitted into the record. Exhibit 3, the State of Washington Department of Insurance rate stability rules, effective January 1 of 2013. Exhibit 3 is hereby admitted into the record. Exhibit 4, Missouri Department of Insurance Bulletin 16-03 requesting comments on premium stabilization. Exhibit 4 is hereby admitted into the record. Exhibit 5, written comments in response to insurance bulletin 16-03 provided by the American Insurance Association, AIA; the Missouri Insurance Coalition, MIC; National Association of Mutual Insurance Companies, NAMIC; and Property Casualty Insurer's Association of America, PCI. Exhibit 5 is hereby admitted into the record. Exhibit 6, supplemental written comments in response to insurance bulletin 16-06 provided by the Missouri Insurance Coalition. Exhibit 6 is hereby admitted into the record. Exhibit 7, written comments in response to insurance bulletin 16-03 provided by Liberty Mutual Insurance. Exhibit 7 is hereby admitted into the record. And finally, Exhibit 8, written comments in response to Insurance Bulletin 16-03 provided by State Farm Insurance. Exhibit 8 is hereby admitted into the record. Any further questions or discussions regarding those documents?

Seeing none, I would now like to introduce Julie Lederer, the Department's property and casualty actuary. Julie will give us an overview of ratemaking of property and casualty products, and give us some basic insight into premium stabilization practices. Will this be showing on the screen as well, Julie?

MS. LEDERER: Yes.

MR. HUFF: Great. Okay. We'll turn it over to you, Julie.

MS. LEDERER: Thank you, Director. I will talk briefly about traditional actuarial ratemaking and where premium stabilization fits in the process of vetting the final price. I'll then talk about what premium stabilization is and how it's used. Finally, I'll touch on three common arguments for and against the practice.

This is the fundamental insurance equation. The goal of the ratemaking process is to make sure that this equation is in balance, which means that the premium charged equals the sum of the losses, loss adjustment expenses, underwriting expenses and needed underwriting profit. The elements on the right-hand side of this equation need to be estimated, which is done using actuarial techniques. The process requires judgment and estimation. Fortunately, actuaries performing ratemaking analyses have many places to go to seek guidance. First, laws, regulations and bulletins. Second, actuarial standards of practice. Third, the Casualty Actuarial Society's statement of principles regarding property and casualty insurance ratemaking. And fourth, textbooks and papers. I've put just a few examples of each category in these four boxes, but the lists are far from exhaustive.

The output of the actuary's analysis is usually rates, meaning estimates of future costs per exposure unit associated with an individual risk transfer. In other words, a rate applied to the number of exposure units yields the premium. However, the work doesn't end there. There may be other considerations that affect the final price charged to the policyholder, as acknowledged by many actuarial communications. In chapter nine of Basic Ratemaking, Werner and Modlin state that marketing, operational and regulatory considerations may cause management to deviate from the indicated rates. Similarly, in the statement of principals, the CAS mentions marketing goals, competition and legal restrictions. Finally, the Actuarial Standards Board is drafting a new actuarial standards practice on P&C ratemaking. Section 1.2 of the second exposure draft mentions marketing goals, competition and legal restrictions as considerations that can influence the premium. All three of these documents exclude the other considerations, marketing goals, et cetera, from the scope of the communication. So while there is a lot of concrete guidance available on ratemaking, there is not much to lean on when it comes to the determination of the final price. So these documents don't touch this topic, but we will, because this is where premium stabilization fits into the premium-setting process.

At this point, it would make sense to give a definition of premium stabilization, but that's not a trivial question, because different parties define the term differently. But most parties agree on at least two points. That premium stabilization involves moderating premium changes on a segment-by-segment or block-by-block basis, and that the premium reaches the uncapped level in a finite period of time.

The next four slides give a graphical depiction of premium stabilization. This slide shows the final changes with no premium stabilization procedure. This premium change could be revenue neutral, but some policyholders are getting large increases: 35 percent are getting a 50-percent increase; 13 percent are getting a 25-percent increase. And some are getting large decreases: 35 percent are getting a 50-percent decrease; and 13 percent are getting a 25-percent decrease; and 4 percent are getting no change. But suppose this insurer implements a capping procedure whereby the premium changes are limited to plus or minus 20 percent per annual policy period. Then in the first year, the policyholders whose final premium changes by 50 percent or 25 percent only face a 20-percent change. In the second year, the plus or minus 25 percent policyholders have reached their final premiums; the plus or minus 50 percent policyholders are now at plus or minus 40 percent, and they reach their final premium in year three. There are two main situations in which premium stabilization is used. The first is to moderate large premium changes for renewal policies when there are changes in base rates or rating factors, new rating factors, new rating plans, formulas or models, and so on. Premium modification in these situations is often called rate capping or premium capping. The second main use of premium stabilization is to moderate changes in transition situations, when policyholders move from the rating methodology products and base rates of one company to another. These types of transitions can happen when there's an agent book roll, the insurer acquires a block of business, business from a legacy company is rolled into a new company, and so on. In these situations, the procedures are often called transition rules.

Finally, I'll briefly go through three common arguments for and against premium stabilization. We can discuss these at greater lengths during this hearing. But for now, the goal is simply to introduce the arguments for those who may not be as familiar with the topic. Argument number one says the procedure may result in rates that are excessive or inadequate, which violates Missouri law. One counter argument is that premiums converge the uncapped premium within a finite number of policy periods. Another is that gradual transitions may better reflect the uncertain nature of actuarial estimates. A response to this counter argument is that premium stabilization is not the appropriate way to address uncertainty in the estimates. Argument number two says that premium stabilization may result in rates that are unfairly discriminatory, which also violates Missouri statute, since policyholders with similar risk profiles could be charged different prices. A common counter argument is that it is not unfairly discriminatory as long as the rules are applied consistently and uniformly. Argument number three, which is in favor of premium stabilization, says that it steadies the insurance marketplace. Policyholders benefit from smooth premium changes, and insurers benefit from reduced market disruption, which in turn reduces acquisition cost and lowers premiums. One counter argument is that prevention of policyholder disruption should not be a central objective in a competitive insurance market. If policyholders are dissatisfied with large, uncapped premium changes, they should be encouraged to seek quotes from other insurers. A response is that policyholders are always free to compare prices, but switching insurers may lead to a loss in customer longevity discount. Another counter argument is that premium stabilization masks the true final premium so policyholders aren't triggered to shop around or seek quotes from other insurers.

And that concludes my presentation. Thank you.

MR. HUFF: Thank you, Julie. Let me open it up to see if there are any questions of Julie on the -- on the presentation. Questions by regulators or interested parties? And then also let me do just a sound check for folks on the phone. Let me pick one person to just ask. Hillary from PCI, are you able to hear us on the phone?

MS. SEGURA: I am, but it was a little quiet during the presentation. A little difficult to hear.

MR. HUFF: Okay. We'll get a little closer to our microphones. Thank you for that feedback.

MS. SEGURA: Thank you.

MR. HUFF: If there are no questions or comments from the presentation, I'll ask Angie Nelson of the Department to provide an overview of state regulatory actions related to premium stabilization practices. There you go, Angie.

MS. NELSON: Thank you. Thank you, Director. Good morning, everyone. I don't think you'll have any trouble hearing me on the telephone. I can promise you that. And as mentioned, I'm Angela Nelson. I'm the director of the Division of Market Regulation. I am going to provide what is hopefully a very brief overview of regulatory actions and positions relating to premium stabilization, including a brief overview of this Department's previous actions. Throughout my overview, I will refer to premium stabilization, rate stability, rate capping, and premium capping interchangeably. But for the purposes of the hearing today, and for the overview that I'm providing, please know regardless of the specific phraseology I use, I am intending to refer to the practice of premium stabilization.

So I will first begin with giving an overview of the actions taken by this Department, and then I will highlight other jurisdictions' regulatory policies and guidelines. This Department first started receiving rate filings which contemplated premium stabilization in the early two thousands. The first situations presented to the Department for its consideration were related to merger and acquisition activity, and premium stabilization was intended to transition newly acquired policyholders into a company's existing ratings structure. Over time, we saw the application of premium stabilization expand to situations where, for example, within a group of affiliated companies, underwriting companies were realigned. In response, the Department developed an internal set of guidelines in roughly 2006 that were used to assist our product analysts as they reviewed and contemplated filings that included premium stabilization. Following that year, the use of premium stabilization continued to expand, and eventually grew to include situations where revisions to rating plans within the same underwriting company would result in significant policyholder disruption. And then we found premium stabilization also grew to allow companies to moderate implementation of significant rate increases. In 2010, the Department convened a group of stakeholders to explore and discuss potential guidelines regarding premium stabilization. This group of stakeholders included academics, consumer advocates, industry representatives, and Department staff. In January, 2011, bulletin 11-02 was issued, based in part on those stakeholder discussions. Bulletin 11-02 established a regulatory safe harbor for premium stabilization practices as those were applied to the personal lines of property and casualty insurance. The scope of the bulletin addressed the use of premium stabilization to moderate the transition between renewals for existing customers.

With the issuance of bulletin 11-02, the Department stated its intent to take no enforcement action against insurers under the following conditions. One, the premium stabilization plan was to be unambiguous and applied uniformly and fairly to all renewal business. Two, the premium stabilization plan was to be rate-neutral overall, or result in an overall rate decrease. Three, the premium stabilization plan was to result in all policies being charged to the actuarially developed rates within four years. And then fourth, the insurer was required to disclose specific information in its rate filings -- the applicable rating caps, the formula or methodology for the capping calculation, the duration of the capping procedure, the impact of the proposed capping in a required filing exhibit -- and also to include an attestation that the actuarial indication did not redundantly measure rate need. Bulletin 11-02 contained a sunset provision, meaning that the regulatory safe harbor extended under the bulletin expired on December 31st, 2012.

Following the sunset, bulletin 11-02, along with other inoperative and obsolete bulletins, was formally rescinded on January 12th, 2015. Since that time, all filings which purport to contain premium stabilization rules have been reviewed and analyzed under the standards existing under current Missouri law. Missouri law generally prohibits rates which are excessive, inadequate and unfairly discriminatory. And those standards are fairly common throughout the country. In Missouri, rates for personal lines of property and casualty insurance are required to be filed within ten days of use.

It is important to note that under current Missouri law, the director does not have the authority to approve or disapprove any rates which fail to meet those standards; rather, questions of compliance with these statutory rate standards are sometimes left for a retrospective review or examination, which I believe is what brings us all here today.

Turning to other jurisdictions' regulatory policies, actions or guidance, there is a wide variance of regulatory approaches to premium stabilization. There are some states that have taken a very strict interpretation of those excessive, inadequate or unfairly discriminatory standards, and have prohibited the use of any premium stabilization practices. However, it does appear that the vast majority of states permit at least some limited forms of premium stabilization. How these standards are presented or effectuated varies as widely as the standards themselves. So I want to highlight just a few of these different regulatory approaches.

I'm going to start with South Carolina and Louisiana. In both of these states, the states have established standards for premium stabilization through procedural filing guidelines which have not been formally promulgated. South Carolina permits a one-term cap to limit policyholder disruption, but the manual rate must be achieved by the next policy renewal. For transitions between one rating plan to another, a one-time transition rule may be applied for up to three years. In Louisiana, the rate and rule filing handbook -- another unpromulgated guideline -- states that rate capping is not permissible for changes in coverage, exposure, classification, or other policyholder characteristics. Caps which limit rate changes to less that 10 percent are not allowed.

The Colorado Department of Regulatory

Agencies -- affectionately, I believe, known as DORA -- issued bulletin B-5.21 in March of 2013. In that bulletin, the Colorado Division of Insurance states that rate caps and floors are permitted if excluding loyalty, persistency, tenure credits, that the new business rates are the same as existing business rates for policyholders of the same class and hazard. Any credits must be filed and actuarially justified. As to transitional rules, Colorado permits transitional rules where policyholders are transitioned from one insurer to another, or from one rating plan to another within the same underwriting company. In all transitional situations, all policyholders should be brought to the same rating level within a maximum of three years. The Division of Insurance, in that bulletin, cautions that the use of a transition rule before the Division has completed its review of the filing is done at the company's own risk of noncompliance.

The Washington Office of Insurance Commissioner promulgated rule 284-24-130, which became effective January 1st, 2013. This rule, which applies to only personal lines of property and casualty insurance, identifies three specific scenarios which the rules deem appropriate for the use of what they have called rate stability rules. Those three scenarios are revisions of rating plans, the acquisition of a book of business from an unaffiliated insurer, and third, moving or receiving business from an affiliated insurer. The rule specifies that rate stability must not be used as a means to extend previously filed rate stability filings and cannot substitute for multiple base rate filings that will have a similar impact on all policyholders. An example that they gave in the rule is that a company which has a rate indication of a 20-percent increase cannot file a rate stability plan that would implement two 10-percent rate changes one year apart. Like Louisiana, Washington prohibits the use of rate stability on premium changes resulting from changes in coverage, exposure, policyholder characteristics, or from subsequent rate changes by the insurer. Again, echoing Louisiana's process, Washington's rule limits rate stability to a 10 percent or greater premium change for an annual policy, or 5 percent or greater for a semi-annual policy.

Here's the interesting part. I think it's all interesting, but the particularly interesting part. So premium stabilization on personal lines, property and casualty is not limited to the United

States. There is information that regulatory entities as far away as Australia and as close as Canada also have developed policies regarding the use of premium stabilization.

The Alberta Automobile Insurance Rate Board issued policy P09 -- called Rate Capping -- in July, 2014. Policy P09 places limitations on both upward and downward capping. The use of capping is limited to two annual renewal cycles, and their policy prohibits the application of simultaneous capping rules.

Likewise, the Financial Services Commission of Ontario has developed Policy 7G, which is for the dislocation and capping of premium increases, also known as rate capping. Ontario permits capping in only two limited situations. Those are insurer's mergers and acquisitions, and where there are extensive risk classification system changes. In both of these instances, capping in Ontario is limited to two years, and simultaneous capping rules are not permitted. Ontario also has a number of very detailed annual reporting requirements tied to what it refers to as the unwinding of the cap. These recording requirements appear to be very similar in nature to the substance of information the previous

Missouri bulletin 11-02 required.

Again, Director, there's a number of -- a variety of regulatory approaches that have been taken. Other states may simply be evaluating these filings on a case-by-case basis and making individual determinations. But I'm hopeful that that review provides everyone a general background of at least what's developed out there today and what is currently readily available to review.

So that concludes my testimony, Director. And I'd be glad to take any questions.

MR. HUFF: Thank you, Angela. Any questions of Angela on the summary that she just gave? Regulators or interested parties? Any questions from the phone? And just as a process check, has anyone joined us on the phone that has not identified themselves previously?

MR. LISCHKE: Yes. This is Mike Lischke from Country Financial. I just joined.

MR. HUFF: Thanks, Mike. Anyone else? Very well. If there are no other questions for Angie, we'll now proceed with the testimony portion of the hearing. Again, hearing first from those parties who submitted comments in response to bulletin 16-03. I believe our first witness is Mark Johnston of the

National Association of Mutual Insurance Companies, NAMIC. Mr. Johnston.

MR. JOHNSTON: And I think I'm also coming up with Steve Witte from the Missouri Insurance Coalition.

MR. HUFF: Just for folks on the phone, Mr. Johnston will be joined by Mr. Steve Witte from the Missouri Insurance Coalition as well. And we'll ask you to state your name and your affiliations, and who you're testifying on behalf of for the court reporter. And the folks on the phone have asked us to keep our microphones as close as we can.

MR. JOHNSTON: Thank you. Good morning. For the record, I'm Mark Johnston -- and that's spelled with a T -- from the National Association of Mutual Insurance Companies. I'm the Midwestern director for state affairs. And with me is --

MR. WITTE: I'm Stephen Witte, government affairs director of Missouri Insurance Coalition.

MR. JOHNSTON: Thank you. I think first of all, I want to thank the Department for having this hearing. Over my years of doing this business, I've seen the results when states have promulgated things without adequate planning. And then during the rulemaking process, there's often the need to fix things that could have been prevented earlier. So I think this dialogue -- this exchange of information is very helpful, and we really -- we definitely appreciate it. As you see, we have with the other national trades -- AIA, PCI and Missouri Insurance Coalition -- submitted comments prior to the March 17th deadline. And for the record, we are -- we are reaffirming our commitment to those comments. I don't have much more to add at this time. I think that we have a competitive market here in Missouri, and the -- whatever rulemaking we do should protect the competitive nature of the market, and to provide certainty for companies that need -- need it to operate down the road. There will be people talking afterwards that can actually -- who actually understood what Angie was speaking. That's not me. So I will defer to them. But again, the -- we, by and large, think the bulletin that -- and the safe harbor that existed earlier in the decade was a -- a good step. And we would like to see a policy that reflects that going on.

MR. WITTE: Good morning. We generally support the -- the exploration into this issue, because a lot of our members, when the bulletin was officially rescinded, even though it expired a year or so earlier, were concerned about the effect of -- of the premium stabilization rules that they were employing. And we still get a lot of phone calls from a lot of our members on this issue. And we would like to see something as flexible and not more stringent than the bulletin was. We think that some type of rule should be promulgated in this area so we have the regulatory certainty that, you know, an administrative rule would provide. Other than that, we look forward to working with you on this issue. We would like to be part of any working group or -- you know, any type of -- any type of working group or exploratory body that you might form to explore this issue, we'd like to be part of that. And we have several members who would like to be part of that as well. That's basically all I have to say on this issue.

MR. HUFF: Thank you, Mr. -- thank you, Mr. Johnston and Mr. Witte, for your comments. Let me ask just a couple of questions, and then kick it off for others to ask questions. So Mr. Johnston, you're a strong University of Missouri Law School graduate, so maybe you can help us with the law in Missouri a little bit. So what --

MR. JOHNSTON: The dead man statute has been repealed.

MR. HUFF: What law in Missouri would provide for an allowance for an insurer to deviate from the filed rate at a given time? So insurers operate on filing their rates, and then rate stabilization, in theory, would be a deviation from that filed rate, at least for part of the portfolio. So what legal support in the statutes, if you have any, would be supportive of rate stabilization?

MR. JOHNSTON: I really can't answer that question.

MR. HUFF: And you did both mention the competitive nature of the market. And part of our mission is to first do no harm. And so, in fact, one independent report had Missouri as the seventh most competitive auto insurance market -- private passenger auto. An NAIC study just had us at the thirty-five -- fifth lowest auto rates in the country. So I'm very proud of our auto market, and I applaud our industry for all the work they do to compete against each other to keep premiums as low as they can for Missouri consumers. But if we have this competitive market, why do we need premium stabilization? Why don't we let customers go out into the marketplace and look for the best value?

MR. JOHNSTON: Well, I -- I support that as a -- as a general principal. But disruptions to the market due to things like Angie discussed -- mergers and that sort of thing -- can -- well, they can be disruptive. It can have marketing, political -- changes in -- in people's response. And I think to the degree that we can -- let me think how to say this exactly right. Disruptions can be harmful to the market. And I think we want to be able to prevent that type of harm from destroying the overall market.

MR. HUFF: Thank you. Mr. Witte, you have any additional comments?

MR. WITTE: I just think that, you know, you mentioned and Angie mentioned in her presentation that several states do allow for the use of premium stabilization in some form. And I think even NAIC has recognized that rate capping and transitional rules can be in the public interest in its recent white paper on price optimization. In bulletins that they mentioned, the -- the model bulletin that they mentioned, and they present in their paper, shows an exception for rate capping in some form. I think that rate capping can be a useful tool, and maybe it shouldn't be carte blanche, but I think something akin to the bulletin that we had in place a couple years ago would be at least the starting point on this issue.

MR. HUFF: And I didn't mean to exclude you from the previous question. Any thoughts on how rate capping or premium stabilization could fulfill the requirement that insurers use rates that are on file with the department?

MR. WITTE: Obviously it doesn't work in theory. I mean, at least in the, you know, red letter law. But I think there needs to be an exception. Obviously there was an exception a couple years ago on this issue. I think it's something that we need to explore, and whether there needs to be regulatory -- or a statute passed to allow for that, I haven't gave that much thought, so I would have to think about that. But that is an issue we probably have to at least address.

MR. HUFF: Thank you. Then I'll open it up for regulators to ask any additional questions.

MS. NELSON: I'll follow up just with what the -- what the director said. And I think his point is I think a very sage one for us, because I think as insurance regulators, you obviously key on an issue that's very important to us, and that is that we don't like to have large rate increases, we don't like to have a lot of policyholder disruption. And so to that extent, these premium stabilization practices kind of are an easy fix. But when we look at what we say is the true competitive nature of that environment, you know, these practices really are taking that competitive nature out. It's masking what is actually going on, and it is not allowing consumers to go out and truly shop around for the best coverage at the best price. And I think that's the balance that we're struggling with trying to strike. And I'm -- and I appreciate what you all are saying, and you know, obviously again I think as regulators, there is a very strong argument for trying to avoid policyholder disruption. But help us answer that key question of why this is not harmful to the competitive nature of the auto insurance market or the homeowner's insurance market.

MR. JOHNSTON: Well, let me give you an example in a different context. And that is I think soon to be Professor Hartwick from South Carolina used an example in another discussion of a family takes on a new driver, say there's a young lady who just turned 16, and she's been added on to the family policy. The risk presented by that young driver is greater probably than the premium that's going to get collected. But if all parents were to face this --

maybe the true cost, that would be disruptive to the company's -- the family's relationship with the company with a desire to give the child a license, with the -- trying to avoid adding the child to the policy. And competition is the -- something we all look forward to, we believe drives the market and produces the best result for people. But at the same time, I think there has to be attempts to -- to smooth down the rough edges of competition. We see that in several industries. And -- for the benefit of the consumer. Again, a disruptive market -- a market that goes from being hard to soft to hard again can produce results -- including results across the street -- that through the long run detriment the consumer.

MR. HUFF: Let me ask a follow-up question, if I may. Do you think consumers should be entitled to notice that the edges have been smoothed, that the rough edges are now taken away? In other words, that the -- the rate that they have is perhaps a temporary rate. And some consumer representatives -- put it a little more bluntly. Is this -- is this a bait and switch, where consumers are getting a rate that is artificial, but will be escalating?

MR. JOHNSTON: Well, I -- let me answer the second one first. And that is, again, with the competitive market, if there is a bait and switch, and with the -- so many different access points to the market through the internet and through agents and all of that, I think that there is -- there is the ability to make that move. It's not like people are locked into a serfdom relationship. As for disclosure, I -- that's kind of the -- an answer suggested for many problems. As a lawyer, you know, we love disclosure. I think it proves that something has happened, and that is the -- on the -- it's something that the customer has responsibility -- and the customers do have responsibilities here. However, having -- I'm not exactly the person that reads every privacy data practices newsletter I receive from my credit card and bank. And I think a lot of that stuff just ends up destroying redwood trees, and so -- to little real value for the consumer. But that being said, I don't know what the alternative sometimes is to disclosure.

MR. HUFF: Mr. Witte, did you care to comment?

MR. WITTE: Well, I think Mr. Johnston summarized what I would probably say. I mean, it's a competitive market. If someone believes that they were given an artificial price or an artificial premium for a small period of time, and it's back to its actuarially sound price, I think there's many avenues for the -- for the consumer to go out and shop around. I mean, this is something that needs to be explored from -- from the get-go. Perhaps someone who's been given an artificial price to smooth the transition from what the price should be versus what it is is something we need to study more. But I mean, with today's market in Missouri being so competitive, I think if the consumer would have -- would employ his natural tendency to want to serve him or herself, they'll go out and shop around and try to find a better price.

MR. HUFF: Thank you. Other questions from the panel?

MS. NELSON: On behalf of your membership, you know, again, as I was looking at what approaches other jurisdictions have taken, Washington really struck me. Because they do have a number of parameters that, quite honestly, our old bulletin had not contemplated. Some of those are, you know, excluding any capping based upon the changes in the -- in the policyholder's risk themselves, changes in coverage, exposure, et cetera, et cetera. My question, especially for you, Mark, at a national trade level -- obviously the Washington rule has been in place for a couple of years. How are your carriers responding to that rule in Washington? Are those parameters causing a lot of difficulty? Or does it seem perhaps that they're able to operate within those constraints fairly well?

MR. JOHNSTON: Having just seen that today, I'll have to call Christian Rataj, who's my counterpart for the western part of the country, and see what he says. I generally have not heard Washington policymaking being held up as an example to others. But that just is, you know, anecdotal I've heard from different people. And -- I'm not trying to close now, but I -- the one thing that I think I haven't said that I do want -- everybody should keep in mind is that with any policymaking, the law of unintentional consequences has yet to be repealed. So anything we do probably will end up with something happening that we all maybe didn't wish had happened. I don't know what that would be. If I did, we'd try to plan ourselves around it.

MR. HUFF: So just to clarify, we will keep the record open until the 29th close of business, if you'd like to add anything additional in the Washington comments.

MR. JOHNSTON: I'm happy to.

MR. HUFF: Thank you. Other questions of -- or these two representatives? Mr. Kaplin?

MR. KAPLAN: Mr. Johnston, I had just a point of clarification. When you were giving your example about adding a child to a policy, are you suggesting that rate capping would be appropriate if it was applied on individual risks simply because there's a change in the risk profile?

MR. JOHNSTON: No. I wasn't suggesting anything that granular. I'm just -- I'm trying to bring it down to the family point of view. That can be highly disruptive to one particular family. But I'm not suggesting that it's a policy issue. It's just more or less an example.

MR. KAPLAN: Thank you.

MR. HUFF: Other questions? Any questions from the phone? If not, thank you, Mr. Johnston.

MR. JOHNSTON: You're welcome.

MR. HUFF: Thank you, Mr. Witte. If there's no objection, we'll continue with the witness list. We've been at it about fifty minutes, so -- time flies when you're having fun. Next company I have listed is Liberty Mutual. If you'll please identify yourself and your affiliation -- who you're testifying on behalf of -- for the court reporter, please.

MR. ESTES: I'm going to be added to the witness list. My name is Jeff Estes. I'm the director of state operations for SafeCo and Liberty Mutual brands under the company of Liberty Mutual. I am not an actuary, I'm not an economist, I'm not a lawyer, but have been working with Missouri rates for thirty years, specifically in the areas of auto and home. So hopefully I'll be able to offer some practical thoughts.

MR. BURHAN: Good morning. My name is Charles Burhan, spelled B-U-R-H-A-N. I'm an assistant vice president for public affairs at Liberty Mutual. And I've been lobbying this state for almost twenty years, and half the country for about thirty-five or forty years. First, I want to thank the director and members of the panel and telephonic regulators for the opportunity to address this topic. I did have the chance to serve in the 2010 task force. And thank you for reminding me about the date. I couldn't recall it. I want to start by saying I recall very clearly that the consumer affairs representative, who I think was actually calling in from a conference in Beijing for one of the meetings, stressed at the first presentation by industry reps that he thought that rate capping was such a good concept he was surprised the Department was having a meeting to try to curb its overall influence, its impact. So we do believe that rate capping is a proper tool to be used both by regulators and by the industry. It has clearly resulted in a very competitive market. You cannot stress that enough. But I think we fail to understand how competition takes place. Competition between carriers entails the evolution of rating plans, it entails the -- the natural outreach, which is extensive. And to be competitive, you have to constantly look and see where your risks are taking place, and then try to come up with a balanced overall rate that makes you competitive and doesn't cause disruption. Because one thing that is -- is it Lederer?

MS. LEDERER: Lederer.

MR. BURHAN: Lederer. I'm sorry. Your actuary indicated on page 11, argument number three, I would only add that the consequences of not having rate capping is higher acquisition cost as replaced churn factor, the shifting ratio of green business to seasoned business so the overall experience of both degrades, which does not benefit the customers who remain, and hence they're more inclined to leave. So the natural consequence of capping is to attenuate those huge swings. And I don't know of any regulator in any part of the country I've ever been in in almost forty years has ever said gee, we love huge swings in pricing, let's do that over and over again. And I think also it's important to recognize that not only are you one of the most competitive states, I think you have one of the lowest complaint ratios. When I look at my complaint ratios in Missouri, they're record low. And to me, that's a sign that it's a competitive market, but also a fairly competitive market.

MR. ESTES: Thank you. I just want to say that I also appreciate what you've done, you know, the work that you've done with rate stabilization. We don't like to be surprised. We like the comfort and the confidence that comes that we're meeting the guidelines, the rules and regulations that you have in place. And so bulletin 11-02 was -- was very much appreciated. And we felt like it provided us with the tools that we needed to care for really thousands of policyholders. I will say that the comments I'm about to share are specific to Missouri. I know there are regulators on the -- on the phone from other states. I'm not speaking to those states, I'm speaking specifically to my experience with Missouri and bulletin 11-02. And I would just state that in general, we appreciated it, we're in agreement with it. I appreciated slide 19 that you shared that provided the transition rules in terms of providing clarity. I would say -- I want to limit my comments to just some ways that I think 11-02 can be enhanced. Just some things to think about. You know, and we'll be happy with, you know, the result. But -- but I think there were some things that we could do to enhance it. And -- and one of those things is to make certain that we do clarify those groups that you provided, Ms. Lederer, on slide 19, in terms of that transition business. I think the past bulletins have not been as clear in that respect. And certainly, we are running into more situations where we are seeing transfer of a business from -- on the independent agency side where I have an agency that had a carrier, terminated the relationship with the carrier, they're bringing the business over. It might be the purchase of another book of business. It might be somebody who failed in the marketplace and other carriers are seeking to -- to bring that business over in a smooth fashion. So -- so if we could clarify and make clear just that issue of transition, I think that would be very helpful. The discussion that you had previously on the number of years, I got a little nervous when you were talking about one year and two years. I remember prior to 11-02, really, the guidelines that were in place, a rule of thumb, whether or not it was written or not was that we were looking to transition that business in two years. And that occurred at a time when property -- and particular, homeowners -- was -- was really unstable. We had a lot of weather, and the industry was taking a lot of rates, and -- to get to the uncapped rate level in two years really did not create a situation where we were smoothing premium. Customers don't think a 40-percent increase is a smoothed, you know, premium. So, you know, I think that, you know, while we appreciate four years, I definitely am on board that -- that we need to have a finite number of years. If we file that and we -- and we move to finite number of years, we need that in terms of making certain that our experience is good, that we're not -- that we're profitable. But I think that in a period -- in a time when the market is very stable, and we don't see any rate changes, per se, I think four years is fine. But if we're in a place where the market is very unstable, we're seeing a lot of movement in terms of rate, it would be helpful to look at something a little longer, five, six years, you know, maybe something beyond that. So just there for food for thought that we appreciate four, we don't want less, we would appreciate more. But make certain it's -- we would make certain that it's finite. I would say that the other thing that I would add in -- in -- I would ask you this. With respect to bulletin 11-02 and the forms that we had, I definitely agree, you know, we need to file what our capping tables are. We need to provide you with all the specific information related to that. There are some Missouri-specific forms in there. They were -- under point two, they were items six, seven and nine, page two. They're illustrated in pages three through seven. If -- if you don't use that information, if you don't find it to be valuable, I will say that it adds time and expense to our filings. It's complicated. It's -- it's a one-off for us. It's Missouri-specific. Just like you, I have new analysts and new actuaries, and we have to go through a time of training to bring them up to speed. We want to make sure that we're absolutely accurate. But it does take us a little more time and adds cost and expense to that. So if that's something that you find yourselves not using -- it's nice to have versus need to have --

we would recommend that -- that that specific information not be included.

UNIDENTIFIED SPEAKER: Morning.

MR. HUFF: Good morning.

UNIDENTIFIED SPEAKER: All right. You guys are going to have to give me a minute. My computer is acting slow today. I must have a slow internet connection or something, but I'm having a heck of a time getting into the system.

MR. HUFF: Good morning. It's John Huff at the State of Missouri. I want to make sure you've dialed into the right conference call.

UNIDENTIFIED SPEAKER: This should be the veteran's quarterly report conference call.

MR. HUFF: No. You have the wrong number. This is a Department of Insurance call, so --

UNIDENTIFIED SPEAKER: Well, I'm looking at the thing I got from the state operator, and it's showing that I have this conference call. Let me call them, find out.

MR. HUFF: Okay. We'll have the call until noon, and you're welcome to join us. It's a public hearing on stabilization.

MR. BURHAN: I can't wait for the transcript.

MR. HUFF: If you're on for the veterinary call, you will have a different number that will be transmitted to you by someone other than me. Sounds like that's why we're losing some folks. So while that settles down, you know, maybe I'll turn my two previous questions into one question, just to get your perspective, either Mr. Burhan or Mr. Estes. So again, back to the -- the law that would allow an insurer to deviate from a filed rate at a given time. But more importantly, the -- there's a significant amount of -- of law on unfair trade practices which prohibit misrepresentation for purposes of inducing the purchase, lapse, forfeiture, exchange, conversion or surrender of any policy, including any intentional misquote of a premium rate. So this goes, really, to the laws on the books today for using a rate that's not filed, but also the disclosure to consumers that their rate, in fact, may be a rate capping rate, and a temporary rate. So I just ask for your general -- I'm not asking you to go look at your books, because Mr. Johnston's doing that for his follow-up. But any -- any comments or perspective?

MR. ESTES: Yeah. I have some -- I have some thoughts on that. I don't think we would be using rates that are -- are unfiled. Because I think about, you know -- you know, we're -- we've used -- we've appreciated the guidance, the safe harbor that's provided by 11-02. But with respect to filed rates, you know, we're providing you with our tables. We're -- we're showing you the capping factors. We've given you an algorithm. And we can very clearly show we've filed with you everything related to rate stabilization. And when you think about where it falls in terms of the rate order calculation, you have your premium, and then you apply your factor. And that factor can be -- can be replicated by market conduct by whoever. So we are using filed rates. We're giving a rate that's promised. We -- we're not just making something up. And we are moving to the -- the final capped rate level.

MR. HUFF: So just for folks on the phone, you have dialed into a Department of Insurance premium stabilization hearing. This is not the veterinary call. And I'll assume they'll send you a corrected number. So if you're on for that call, if you drop off the phone. Others, we'll ask that you mute your phone so we can continue with the public testimony. And then just to check to make sure we still have our folks on, Hillary, you're my contact person. Are you still on the phone from PCI?

MS. SEGURA: I'm here.

MR. HUFF: Great. Thank you very much. I apologize for the interruption.

MR. BURHAN: No. I would say that -- I don't think any carrier would ever say they're using unfiled rates. That's not in the best interest. But more importantly, in all honesty, you know, when we go through a lengthy and sometimes exacting and difficult process with Missouri Department, you know, we don't just simply use the rate. We want to make sure that you feel comfortable. We believe that what we have given you constitutes that filed rate, and as Jeff indicated, has all our exhibits about rate capping. If there's any sense of ambiguity or a -- a legal opinion to the contrary that you think requires some clarification, either by way of amending the bulletin to indicate that these are construed to be filed rates or to change the law. And certainly we'd work with the Department, with MIC, with NAMIC to achieve that clarification going forward.

MR. HUFF: And then if you can just speak generally to the issue of transparency for the ultimate consumer, that their rate is indeed temporary.

MR. ESTES: I want to go back, if I could, to the other question that you asked, just about what do we think this does in terms of benefiting customers. I think that -- that premium stabilization, over the long run, will actually result in lower rates and more competitive -- a more competitive marketplace for Missouri. I think about all of the stories -- I had friends who were living in England, and they had one-year policies that the market was such that they used aggregators, everything was -- you could say the maximum in terms of transparency, because you could look at everybody's rate. They were there for one year, and so, you know, their rates were -- were -- had to include acquisition costs, it had to include every -- everything about it. We recognize that -- that the loss ratios are improving. As we develop a relationship with the customer, we sell extra policies. You recognize the value of -- of multi-policy discounts in -- in rating with probably better company that we have in the marketplace. And so -- so the fact that we have a customer that we know their experience is more stable, our expenses are less, and I think that translates to more stable and lower rates for customers as a whole. I think about periods of transition where our agents have had disruption, they've had carriers -- my independent agents have had carriers who have canceled their contracts en masse, or left the market, and then that agency spends a lot of time just trying to rewrite that business and redirect that business. And that leads to inefficiencies in their offices and greater expenses. The other thing I would say about longevity is just the value that, you know, our agents in Missouri bring to us, in that -- we think about Joplin, we think about other tragic events that we've had. The fact that customer had a relationship with an agent, versus somebody that they went from one year to the next, to the next, to the next, and it was an impersonal sort of relationship, that that made a big difference, just in terms of having -- walking through that trauma and having their home rebuilt and doing all those things necessary. So I think there are a lot of positives to premium stabilization. Lower rates, greater customer loyalty, service in the community, you know, the opportunity to provide customers that we know better service because of the fact that our agents know them personally, I think -- I think there's value associated with that.

MR. BURHAN: To the pending question, transparency, I always believe in disclosure, and I always believe it's important to understand what you're buying. But having said that, there was a famous study -- it was actually a test run by a -- a bank out of Philadelphia, reported by NPR in the mid nineteen-eighties, where those long stuffers required by the federal government -- buried in the middle of a fifty-page, very tiny print was a line saying if you've read this far, you're eligible for a contest, call this number. Out of the millions of mailings sent out, they got zero phone calls back. So the question is what is the best way to convey that information. I think the Department may be first the best point in terms of your own website and indicating to customers that your rate is created by this, which creates the premium, and it may or may not contain some elements of rate stabilization, so there is no rate shock. That's probably the best place to start that. And it may be a good way for the industry as a whole to discuss -- and I'll plug the summit -- your summit on October 13th in Kansas City. I hope you have task forces discussing that concept. The problem with carriers doing it -- and I'm not an attorney -- the problem, if you ask somebody to put that out, is you're asking for a series of law suits on what was that meant to indicate, is that clear enough, and that's an ongoing mess, as opposed to consumer education. And in a time period when, you know, we know the insurance marketplace is going to change dramatically in the next five years, not just a question of will there be a Google car and Google insurance, but how many young people will be driving cars at all, how much car ownership will take place, how will cars be rated, either by the mile or by fractions of exposure units. And people understand what the purpose of insurance is, which is basically being responsible and helping your fellow driver and your fellow citizen. So again, I think the Department would be the first place to start, and I'd like to work with you on that.

MR. HUFF: Thank you. And any other questions from the panel? So it's been suggested, if you -- if you wouldn't mind, maybe we'll take a quick break now, and come back to see if there are any additional questions for Liberty Mutual. So it's 10:10 central time. And let's take ten minutes. We'll come back at 10:20, and -- and then we'll make sure we're cleared up on the phone. If folks want to stay on hold or call back, it's your call, but we'll resume at 10:20 a.m.

(OFF THE RECORD.)

MR. HUFF: I think we'll go ahead and try to get started. Again, this is John Huff at the Department of Insurance. We had some confusion earlier on some dial-in. So if you are not on the phone for the premium stability rate capping hearing at the Department of Insurance, you are on the wrong number, so you -- you're welcome to stay, but you may not be as interested in the subject matter. We're joined -- rejoined by Charlie Burhan and Jeff Estes from Liberty Mutual, and we'll continue the discussion with them on the subject of rate capping. Did you have any follow-up on any of the questions that we ended with? I didn't want to cut you short before we go to the next question.

MR. BURHAN: I just want to add one more element that may not have been in the Liberty presentation submitted to the Department. Because the Department indicated this is for property and casualty lines, I assume that part of the scope will be the clarification of rate stabilization for commercial lines as well. And -- and certainly there are strong distinctions between commercial products and personal products. So to your question, Director Huff, about clarification and transparency, there are different needs of transparency given the broker environment for commercial lines and the sophisticated buyer who may need commercial lines of policies. So I certainly hope that the level of clarity and modality difference between personal lines customers and commercial lines customers -- and I would certainly encourage the Department in their organic and forceful thinking going forward to consider the benefit to rate stabilization for all aspects of commercial policies, including those currently not allowed.

MR. HUFF: Thank you for that comment. You know, I have made previous comments this year that I think we have missed an opportunity -- and maybe this opportunity will still come -- for a -- a serious discussion on the deregulation of some commercial insurance with business-to-business sophisticated buyers, which I think are taking resources away from departments of insurance and insurance companies for transparency and for disclosure, that are simply adding cost on the commercial side. So that's for another day, but I share that with you because I think there's a project out there that is worth looking at. And I also will share with you the way I articulated that is I think we have -- we probably don't have enough cohesiveness in terms of the industry side, in terms of multiple trade organizations that would be a challenge to get organized.

MR. BURHAN: To add texture to one question, you raised the issue of whether or not the stabilization process was a back door possibly inducement. Certainly we don't feel that's the case, because, again, it's a filed rate, and it's filed rate for all parties in that class. But if there are concerns about inducement, there are a number of commissioners right now who are looking at changing inducement statutes. So as the Department looks forward to its broader agenda, I would encourage a similar review of the need to relax and change those rules to reflect the new type of consumer and the ability for services they want.

MR. HUFF: Thank you for those comments. Anything else from you, Mr. Estes, before we go to the next questions?

MR. ESTES: No.

MR. HUFF: Okay. Angie Nelson.

MS. NELSON: Well, I'm going to pick up on his theme of commercial insurance. And so mine is very, very, very, very specific. And that is with regard to workers' compensation. We've had some conversations about previous stabilization as that would apply to workers' compensation. And one of the issues that I've struggled with in terms of -- of whether it would be permissible and the benefits of it, but more of a practical constraint in my mind is the statistical plan. And so how -- how would that premium stabilization factor into our stat plan in terms of the data that's reported up? You know, we rely on that data very heavily in terms of what is the average pure loss cost, what are average premiums, et cetera, et cetera. My concern is that without some sort of mechanism in place -- like for instance, we've got reporting codes for schedule rating debits and credits -- all those things lets those premiums get on level so that we have a better insight as to what's going on. I don't know how we do that with premium stabilization of workers' compensation. And my fear is would we be diluting the data or missing data that would be very useful to us. So that's been my concern. And I don't know if you all have any thoughts on that.

MR. BURHAN: Feel like I'm doing a Jeopardy show. The degree to which NCCI believes the reporting data that Liberty provides to them since we initiated work comp modeling in this state a few years ago -- I don't think we're seeing that degradation of data. And Liberty is a very strong member of the NCCI, and we work closely with them on all the stat codes and the data analysis and everything else. If there's a concern -- it's the first time I've heard this raised, but I like the question. I think part of any working group should include that question. Certainly it's a good goal as you work towards allowing deviation and stabilization of comp, to make sure the data is correct and relevant. And I'm sure MSTA would like to be part of that working process, as would Liberty.

MS. NELSON: Yes. And I think the difference, Charlie, you know, is that you mentioned the predictive modeling in terms of, you know, the allowance that went in by statute a couple of years ago. The one thing that we were able to do with that is also to create a statistical code so that we could capture that data. So that was, to me, a very essential piece of that -- that puzzle that we made sure -- and with stabilization, I'm just -- I'm not -- you know, it's such an intriguing issue, I don't know how to get my hands wrapped around it in terms of how we address that issue. So --

MR. BURHAN: I only recommend -- because any time I've been involved in industry phone calls with workers' comp, click, click, click. If you form a working group, if you have a subgroup on comp and that specific issue -- although I think data is data.

I mean, as long as you're capturing data the right way and reporting it, you're covering your bases. And of course the reason why the work comp model works so well is because it's very fresh data that's analyzed very closely. And it's -- maybe one more comment to Jeff's one about the virtues of rate stabilization. A long time ago when I first began working in the industry back in '81, it was basically a make and model rating. And we've come a long way since make and model rating. But one thing that's never changed is the need for good judgment by management in ratemaking and how rate's taken. It's important for carriers not to take every single possible penny of rate. And most don't in a competitive market. And those good judgement calls were always made in the past by seasoned executives. And now they have additional tools to make that more plausible, and to make it more workable, and that's the rate stabilization process. It allows you to make marketplace decisions to expand your market and to be more competitive. I think that's reflected in the national record low levels of assigned risk market, because carriers are allowed to use and employ their capital carefully, but also boldly in different territories.

MS. NELSON: And I -- I appreciate your comments, too, in terms of making sure that there is a point to which you get, you know, a finite end to this capping process or stabilization process. And, you know, my thought is that, again, part of the struggles that we had with the old bulletin is that we found that we were doing perpetual resets. And it seems that that is a problem that continued to grow unabated as the bulletin went on. So I -- I'm really curious if you all have thoughts if, you know, we look at some sort of structure where there is a hard and fast time frame. And maybe the time frame is different for a transitional, you know, reason versus, you know, changes in a rating plan, and if there are perhaps pressure release valves that we put in there that additional time frames could be extended upon the approval of the department. Sort of what are your thoughts on that?

MR. ESTES: Well, I do appreciate the fact that we can come back to you and -- you know, certainly the -- the plan that we put in place -- we have one plan in place for rate stabilization, and we have the ability to amend that each year based upon the level of rate need that we have. And so I would -- I would like that -- which was provided for in 11-02 -- to continue to be available, because the market is ever-changing. If I were in a position where, you know, everything was stable, loss costs were the same, and I could count on, you know, three percent, four percent, whatever the rate was from one year to the next, it would be great. But we have those times with property, obviously a few years back where it was very unstable and the industry as a whole needed a lot of rate, and they were taking rate, and that need was different in terms of, you know, capping ranges and things like that. You know, I'll be careful. You know, no anti-trust preamble was read. But I would just say that, you know, I'm fearful when I look to the future, you know, I see some instability in another product line, I see rising severity and frequency, and I think we're about to enter a time where a different line -- I'll keep myself safe by not mentioning it -- you know, requires more rate. And -- and so for that reason, I think we're going to need adjustments in that. But if we file it every year, we show you a path to -- to that finite period, whether it's four, five or six or whatever, you know, I think we're fine. I do agree with you that we need a separate plan for that transition business, because the ranges are not of our making. It's -- it's what we're coming into with somebody else's book of business and -- and our rating plans are just very different at times. It could be that the overall average rate levels are similar. But just in terms of the -- the factors that we have versus somebody else are so different that it just -- we just need to have a smooth transition. And you could say, you know, send it out, let, you know, free market take care of that. And certainly when we -- when we goof up, if we have a large rate increase, our customers are not shy about shopping. And on the independent agency side of things, I have agents who have rules in place that says that -- you know, they look at the renewals, and they see somebody over X percent, they're calling that customer, and they're talking to them to try and retain that business, and they have other markets and they will requote that business. So -- so you know, I think we need two different plans, one for transition, one for the other, and then the flexibility to refile it.

MR. BURHAN: The question you're posing has come up in other states as well. And I think my recollection, Ohio was the station between a substantive model change and a model tweaking. And that is in part a problem with the regulator. And certainly you should not scam the system to the point where a well-intended rule is abused because you're really not changing anything. So -- but by the same token, I think the regulator has to have very clear guidelines on what constitutes a major model refresh, because the models do cause that disruption, but the models are necessary to have the most accurate granular rating possible, which in my mind is the fairest rating possible. I think Jeff's comments about flexibility in terms of dislocations caused by what we're seeing is a record confluence, the epic storm between higher frequency and higher severity, which was unexpected. If that trend continues -- and it should, when you think about it, because we have a record number of new cars being purchased for several years in a row --

MR. ESTES: I didn't say the line.

MS. NELSON: Duly noted.

MR. BURHAN: But these things happen. So the rules have to be viewed as being flexible. They're guidelines for the regulator. They're guidelines for the carriers. And each rate is a -- like a loving piece of bread coming from the oven. It's crafted together for the same audience in mind. And we want to make that bread as fresh and delicious as possible. I'm getting hungry.

MR. HUFF: We'll pivot from bread back to insurance. So any -- any additional questions? Jim Mealer?

MR. MEALER: This question's for Jeff. So I think you indicated two -- something for transitional plans and then other plans as well. So from a market conduct perspective for our examiners to kind of replicate what may be happening, would your -- would your systems or your files have indicators within them on which policies would be subject to which plans?

MR. ESTES: We would. And we've actually had some experience with your folks. But for the independent agency side in particular, you can identify it with agency, you know, codes. And so we would assign a specific code to this book of business that was coming over from this company for this agent. And -- and so you would be able to clearly identify, you know, what -- what it was. And if the business was business that was brought over by a special team of people, they would have documentation that was necessary.

MR. BURHAN: Especially those -- that answer from Jeff -- it would be helpful also if those guidelines were made very clear ahead of time, submitted for issues like record retention to make sure those records are quickly and readily available for your team.

MR. HUFF: Other questions? Other questions from the panel? So Mr. Estes, you talked about an agent, when a -- sometimes an agent sees a rate increase, and then they reach out to the consumer to have them shop around. Do you have any knowledge if they also talk about the earthquake risk that the consumer may have?

MR. ESTES: Director, is this about premium stabilization?

MR. HUFF: Maybe.

MR. ESTES: I will tell you that my independent agents -- beautiful thing about independent agents is -- is if one carrier's not able to provide that particular need, they have other carriers that do that. They do have conversations about that. And I'll also say that my St. Louis agents in particular, they're looking for something different in terms of a rate or deductible. They do have a couple of excess and surplus markets that they use and are satisfied with. So they do have those conversations. When a company does take some sort of adverse action, whether it's increasing a deductible or -- or -- or, you know, not being -- not writing that coverage, notification is provided. And I'll tell you, our agents are so concerned about their excess and -- about E&O coverage that they're very, very clear about that, and very likely have sign-offs in their files to that effect.

MR. HUFF: Thank you for that comment. Angie?

MS. NELSON: One more question. I keep going back, because again, you can tell I was -- I was sort of intrigued by what I saw in Washington and Louisiana by the option where they excluded out any changes in the policyholder risk from being excluded from premium stabilization. What are your all's thoughts on that? Is that -- is that something that we should consider? Is that something that we should not consider? What are your thoughts on that?

MR. ESTES: I think the key thing when I think about this -- so I'm here speaking on behalf of Liberty Mutual, but I know that there are a lot of companies out there that have different degrees of -- of resource and skill in terms of doing that. And the simplest cap is certainly one that just looks at last year's premium, compares it to this year's premium, you know, divides it, looks at the rate difference and applies a factor. And that's a very, very simple cap. And that may be all that certain companies have the sophistication to do. We certainly -- when I look at -- at what we do, particularly with respect to homeowner's risk, you know, we'll look at what are the things that was changed, and what are the customer-initiated changes. And we'll differentiate those things. We have certain factors that we cap, certain ones that we allow to flow through. So if a customer, you know, buys a new option, they add a piece of jewelry, they have something like that, that's something that they initiated, they purchased extra coverage, that's not subject to -- to a cap. But if I did something, if I changed my factors for protection class, if I did something else -- something else that -- that did have impact, and it was company initiated, those would be the types of things that we would be more likely to do. So I think that we're already doing a number of the things that -- you know, like you mentioned --

MS. NELSON: Right.

MR. ESTES: -- you know, some of the other states. Again, I'm not an expert on any other state. I work with Missouri. I occasionally work with other states. But this is my bread and butter.

MS. NELSON: Missouri would be your favorite state.

MR. ESTES: It would be. And let me just say this, that I'm a native Missourian, sell policies to my friends, neighbors, people I go to church with. And so if I make a mistake with my product, if my rates are not properly stabilized, my friends will let me know that they had a bad consumer experience.

MR. BURHAN: More importantly, he plays golf with his customers, too. This is a country with at least fifty major insurance markets, if not even more, including metropolitan markets. And what works well in some states does not always work well in other states. In some states they're very progressive. Other states feel more comfortable not doing things any different than they did from decades previous. I like pioneering innovation. Having said that, we all need certainty. And going back to the comments from Jeff and the previous witnesses, the original bulletin, I believe, should be the bedrock going forward. One, because you want to have that level of clarity. There was some disruption of the marketplace when the bulletin was withdrawn. And I can't speak for other carriers, but I have to believe there'll be a tonic effect when a new bulletin is issued that as closely as possible follows the guidelines of 11-02. Having said that, nothing prevents both sides from innovating and working together. And if indeed you form a working group as was formed in 2010 -- which I certainly hope you do -- then you may want to consider some type of a continuous working group as this issue keeps developing. Because the very nature of the insurance product -- you know, we're not a commodity. We're an evolving concept with differing coverages, different data collection abilities, and a changing consumer. So for all those reasons, the bulletin should provide the right guidance and stability so ratemaking can take place fairly, but also allow for organic conversations going forward.

MR. HUFF: And just to clarify for folks that may not be as familiar with it, the bulletin 11-02 did have an expiration date. And by the time it had expired and the Department took up the issue, we then had an adverse court ruling on bulletin authority. We worked very closely with the industry and other stakeholders to reinstate that authority. We appreciate the support of the industry in that regard. And so we have legislative clarity, statutory clarity now on bulletin authority. So we're appreciative of that authority, and want to make sure we use it properly as we go forward. Although the purpose of this hearing is to determine whether actual rules should be established to embed even further the ability of rate stabilization. Other questions of the panel? Julie?

MS. LEDERER: I think this is probably for Jeff. If we were to have a rule that allowed perpetual restatement of a plan, does it make sense to talk too much about the time limit four, five, six years?

MR. ESTES: I think you do want to do that, because when we look at our resets, we look at it in a four-year period. You know, we recognize that we need to get the customer there within four years. And so I designed my table so that, you know, I look at the maximum increase, the maximum decrease, I make certain that I'm getting there at least 25 percent, you know, per year. So -- so I think that you do want to continue to have that period. The reset just allows us to go in, look at our book in light of the new rate that we've taken, and establish what the capped and uncapped value is. And certainly we understand, you know, bulletin 11-02 said specifically it needed to be rate neutral or it needed to be a decrease. You know, and let me -- I mean, it's -- capping is a very difficult thing. I think that when I think about our folks, it's the most difficult thing that we do. And the math that we have to do in order to determine, you know, capped versus uncapped to make it work, you know, it's -- it's -- it's quite a process. So we appreciate the flexibility.

MR. BURHAN: It's self-evident, but one of my colleagues made a comment a while back about the fact that you have a block of business, and you're making financial assumptions on how that block of business performed four years going forward. We never realized the price of gas would drop so much and miles driven would go up dramatically. Things change. The whole book of business changes. The aging of population, the ratio of new drivers to old drivers, seasoned drivers to unseasoned drivers, so it's nice to visualize this as something that's precise and lapidarian, and you can control and see how it moves across the algorithm. But the reality is we're all people, and there's a lot of circumstances, so it's -- it's a combination, which is why flexibility's critical.

MS. NELSON: You're still not rid of me. You bring up a point that makes me think, and that's very dangerous. But talked a little bit about the bulletin 11-02 and how it put the overall sort of guidance in there that any rate capping had to be neutral or result in an overall decrease. It seems -- well, I would say our previous actuary believed that that instilled some underwriting discipline, to make sure that there was -- you know, obviously we don't get into a situation where you have some insureds possibly subsidizing other insureds, cross optimization was somewhat limited, and again, just for good underwriting discipline. Any thoughts on that?

MR. ESTES: You know, at the end of the day, we want to -- to -- the beautiful thing about a finite cap is just that it means that we're going to have the discipline to get to the uncapped rate level. And -- and we look at our experience, and we see what's happening with our loss ratios, just in terms of -- you know, by year. And if you had an infinite cap, if you didn't have a finite, and people were taking forever to get there, you would be losing money. I think that what we have in place in terms of filing a cap, having a finite number of years, I don't think you have to have that -- that specific requirement that it's neutral or that it's negative. We're -- we're -- we're happy to comply with that.

We're happy to do -- you know, to do it that way, but I don't know that it's absolutely necessary. And I don't think that -- you looked at what other states were doing. I don't think that it's necessarily a requirement in -- in other states. So how's that for an answer?

MS. NELSON: Good answer.

MR. ESTES: I would only put a personal twist on this. I don't think you'd want to use rate capping as an underwriting guideline. I'd rate individuals based upon their personal circumstances and our underwriting -- type of circumstances. You know, how that works out financially is the question. The first question is always are you at risk.

MR. HUFF: Other questions? Any questions from the telephone? Let me -- let me just ask one question. We talked a little bit about the filed rate and the schedules that are filed, and that a rate could be determined from those schedules. Do -- for market conduct purposes, do you see any extraordinary administrative cost on production of a rate, if that would be asked during a market conduct exam based on these schedules?

MR. ESTES: No, I don't. I think that it's -- it's a common thing that we're involved in, you know, market conduct currently. We're asked to provide the tools to -- to let you replicate, you know, the rate, see how we got to the rate. So it's a normal course of business.

MR. HUFF: Thank you.

MR. ESTES: Possibly for the upcoming October 13th seminar, that Mr. Mealer could conduct a little tutorial on how that actually is done, so the curious can find out, make sure they do have the materials ready for that eventuality.

MR. HUFF: Okay. Any other questions of Mr. Estes or Mr. Burhan? If not, thank you very much. And just to clarify, Charlie referenced now twice the October 13th. We do have the director's regulatory summit. We've done it every two years for the last six years, I guess. It's an opportunity to bring state career regulators with -- with the company representatives at all levels of the company and all levels of the Department. And so we'll host that this year in Kansas City. We've previously done it in St. Louis and in Jefferson City. So there's more information on the website, if you're interested in participating. Thank you very much.

MR. ESTES: Thank you.

MR. BURHAN: Thank you very much.

MR. HUFF: The next company on the witness list is State Farm. I think Mike Lane is here, if you'll join us and please state your name for the record, along with your affiliation and who you're testifying for. Because we have folks on the phone, I will ask you to use the microphone.

MR. LANE: Thank you. We'll do that. And we'll introduce ourselves first because we have two people who we'll add to the witness list. I'm Mike Lane with State Farm, state counsel in the corporate law department.

MR. FEINEN: I'm Chuck Feinen, State Farm. I'm counsel to P&C operations.

MS. POPEJOY: Kathy Popejoy, State Farm. I'm an actuary for State Farm.

MR. LANE: I think our comments will be a little briefer than the previous ones. We basically want to stand on the comments that we provided in writing. We'll add a little bit more to that. But the bottom line is that the -- the parameters that were put around premium stabilization in the previous bulletin were ones that we were very comfortable with. We -- we believe that with the proper definition, that premium stabilization practices would certainly vary from company to company. There is not a uniform way that companies use these -- these practices. And certainly I think State Farm does it differently than probably a lot of maybe other carriers. But we believe that premium stabilization factors are a benefit to consumers, that they are not in violation of the -- of the ratings -- the ratings statutes in Missouri, and that -- that they are -- are beneficial to consumers, in that they allow consumers to -- to move to the proper rates within a reasonable period of time. We're very comfortable with the guidelines that were established and created in the bulletin. And we'll be happy to -- you know, to continue to work with the Department if -- if we go forward with this and put those -- those or some other guidelines in place. You've asked a little bit of questions about disclosure. I mean, obviously consumers get disclosure for -- for their auto or homeowner rates in advance of the renewal of the policy. I'm not really sure how explaining to a consumer exactly what the -- you know, the potential future rate is is going to be necessarily beneficial to the consumer. In -- in my estimation, that -- that number that I'm required to pay on that renewal bill is the most important one to me. In the very small or few instances where someone may have a premium or rate capping process that they

-- they have to go through for the next few years, a future rate -- predicting a future rate, even with a filed plan, is not exact. And it can change from year to year. So simply telling a consumer your future rate is X or Y, most likely will change anyway, and could create more confusion for consumers and more questions for us. So I think that -- that providing, you know, that kind of potential predictive information to a consumer would probably result in more -- more questions for the -- from the consumer than answers to them. So overall, you know, we're comfortable with -- with what the Department has done in the past on this, and we will be glad to work with you guys if you want to set up some parameters to move forward in the future.

MR. HUFF: Any other comments from State Farm team? Okay. We'll open it up for any questions from our group. Angie?

MS. NELSON: One question again, just on the time limitation. I know that your comment said that you all were -- would prefer something that's more open-ended. But obviously you've heard the conversations that we've had this morning. And the one thing that I threw out to Liberty Mutual was the concept that we might have two different time limitations, depending upon what it actually is involving, if it's a transition perhaps because of logistics, you know, perhaps a longer time period. Are you all comfortable with the four-year time period? And if so, is -- is that, you know, enough? Will we need to contemplate some other sort of process by which additional time could be granted at the discretion of the director? Just kind of thinking conceptually and trying to see what your all's thoughts are.

MR. LANE: Oh, four -- I think that a time limitation is -- four years is reasonable. And I think that would be something that we could certainly work with.

MR. HUFF: Other questions? Go ahead, Julie.

MS. LEDERER: So in our insurance company regulation examinations, we're starting to look more at rate filings. And I know that State Farm isn't domiciled in Missouri, so we wouldn't be going in and looking at your books. But what should we ask to see to make sure that rate need isn't over-stated or under-stated when there's rate capping in place? And that's a question I don't know the answer to, and I'm looking for guidance. What should we ask to see when we do an exam? I didn't mean to throw this to the actuary.

MR. FEINEN: As a former regulator myself in the Department of Insurance in Illinois, I think that's a tough question, because each company's going to be different. You know, there's not going to be one set of ideal information that's included, one company versus the next company. We've got company structures to deal with, mutual versus stocks, we've got geographical areas. So I think that's a difficult question to answer. But obviously when a company's developing a rate, they're looking at rate accuracy and solvency. And I guess questions around how that process is done internally might be a way to start getting into whether or not the rate ultimately ends up being inadequate or excessive rate.

MR. HUFF: Jim Mealer?

MR. MEALER: Regarding disclosure, you thought it wouldn't be all that effective for rate capping. How -- and I think in Louisiana and Washington, where there were material changes and exposure or risk, they basically said that shouldn't be part of the rate capping process. What if -- or let me rephrase that. So for material changes in those individual circumstances that would impact their rate, should that be disclosed? Not just the overall rate capping process, but if there's material changes to the individual's exposure or risk, should that be disclosed to the individual what those changes are?

MR. FEINEN: So I guess maybe some more definition around that. Obviously when a rate is quoted or produced for policy -- for a policy period, we're rating that policy based on the facts and information we have at the time that we're putting together the quote and then ultimately issue the policy. So getting back to the example of adding the new driver, buying a new car, adding another car, changes, I mean, obviously those are factors not contemplated in the original rate, and once added, they should be rated appropriately pursuant to the filed rates. So I guess maybe some more information around the question might help me understand kind of where you're going at. But for me, all those things in our rating plan are going to be triggered once the customer makes a change to what kind of coverage they want, or adds or takes away from the coverage.

MS. POPEJOY: So I guess to add on to what Chuck said, and say it a little differently, if I'm understanding correctly your question, a customer is going to know that there's been a change in their exposure because they're going to be the one that initiates it. Either they add a new driver, they add a huge addition onto their home which changes the amount of insurance they may want to purchase on that home, or a variety of other things that, in my mind, most instances, the customer has initiated themselves.

MR. HUFF: Other questions from the panel? If not, any questions from the -- on the phone? Just kind of an overall question. Just -- I know we're not talking generally about price optimization, but the concept of -- of rate capping does create a situation where there's a likelihood that there are two similarly situated risks that are at different rate structures. And so I just thought I'd just ask you generally what's your philosophy, or what are your thoughts. Does that create unfair discrimination on -- on rates just because of the nature of those two rates being similarly situated, but -- those two risks being similarly situated but at two different rates?

MS. POPEJOY: I think you have to know what similarly situated means. And there is a variety of things that could come into play. And in my opinion, it's probably very rare that two customers are identical. Either they've been insured with the company for various lengths of time, or one is an existing customer and one is new business. So similarly situated is a pretty vague, kind of open-ended phrase that I think needs more discussion or more definition before we would have a specific answer to that question.

MR. HUFF: And just so I don't misunderstand your comment, are you -- are you suggesting that there are no two risks that are similarly situated?

MS. POPEJOY: I think that would be very, very rare that they're identical. So similar means that they're not identical, so there is -- could be a potential reason why their premiums could be different. So similar and identical I think are two different descriptions.

MR. HUFF: Right. I understand that. But that's why my question focused on similarly situated. And if I heard you correctly, you don't think there are two that are similarly situated. There could be?

MS. POPEJOY: If similar is a broad definition, probably they could be similar. But I still think that you can't answer a question of whether they should be paying the exact same rate just because they're similar.

MR. HUFF: Thank you.

MS. NELSON: Follow-up on that. That seems to really pick up what we saw in terms of Colorado's bulletin, where it talked a great deal about, you know, excluding tenure, loyalty discounts, et cetera. It seems like that was a nice way for them to parse out I think what you were getting to, that concept. Is that fair?

MS. POPEJOY: That would be one example.

MR. FEINEN: And if I could add, if they truly are similar or identical, and the rate plan is appropriately applied to them, they should have the same rate.

MR. HUFF: Other questions or comments? Anything from the phone? Okay. Thank you very much. Appreciate it. Thanks for making the trip in. The next company on the list is Farmers Insurance. And I'll ask if anyone else on the phone has joined us that has not been identified.

MS. NELSON: Any other states?

MR. HUFF: Good morning.

MR. KOCH: Good morning. My name's Brandon Koch, and I'm a government and industry affairs manager for Farmers Insurance. And you've heard from a lot of insurance experts this morning who are very well qualified, probably much more so than myself.

Farmers Insurance did provide feedback to the issues that were raised. And much of that has been covered already. What I did want to touch upon, though, was just a couple of points. And one was the appropriate duration of premium stabilization practices. Because that one seems to have come up. So I just wanted to relay Farmers' comments in that regard. And we believe there should be no pre-prescribed limitations on premium stabilization practices due to the wide range of situations. It would be preferable to have the Department review premium stabilization practices on a case-by-case basis. However, if the Department deems it necessary to specify a number of permissible renewals, then modifications of existing premium stabilization plans with subsequent rate revisions should be permitted to perpetually reset the premium stabilization plans. The only other issue that I wanted to restate Farmers' feedback on is whether there should be any notice requirements to policyholders regarding future premium changes resulting from premium stabilization. And Farmers' response was that providing notices to policyholders regarding future premium changes resulting from premium stabilization would be of minimal value to the insured, but could potentially mislead the insured when there are changes to the insured's risk profile, the insurer's base rates, rating factors, or premium stabilization plan, or any combination of the aforementioned items. And those -- those seem to be the two areas that have been coming up, so I wanted to share that feedback on those two issues alone.

MR. HUFF: Thank you, Brandon. Any questions? Comments? Any further -- clear up anything from the phone? Okay.

MR. KOCH: Thank you for the opportunity. I appreciate the opportunity to be a part of this. Thank you.

MR. HUFF: Thank you. Appreciate Farmers attending. I don't have a list of anyone else that's asked to testify. I see a couple other companies, but maybe they've been represented by some of the trade organizations. Anyone else in the room that's -- would like to testify on the issue in front of the Department? Seeing none -- we do have an update from Mark Johnston of NAMIC --

MR. JOHNSTON: Yes.

MR. HUFF: -- who's been busily working on his legal memo. Mr. Johnston?

MR. JOHNSTON: Thank you. Thank you, Director Huff. Ah, technology. Yes. Busily using my thumbs to get an answer to your question about the state of -- as we people in St. Louis say -- Washington. I have an answer -- at least kind of a -- 90 percent of an answer. And I think the first thing is compared to what. I think if you were to ask carriers that write in Washington, they did not see a need for the bulletin. This was something that was brought to them that they didn't, again, think was needed. But once the process began, and there was dialogue, the regulation was improved over the process or -- and made better. And as my counterpart said, they're now handling it. I think that's like in many regulatory environments, whatever the environment is, people will adjust to it. Whether it's a good environment or bad environment probably depends on your philosophy. But it was something that people I don't think thought was needed, but it was approved. And the state of Washington does have an auto insurance market going on right now.

MR. HUFF: Thank you. Thank you. Any questions or comments?

MR. JOHNSTON: Now, I haven't talked to my sister who lives in Seattle, but we'll have time for that later.

MR. HUFF: Okay. That reminds me that

we'll leave the record open until close of business on Friday, April 29th. Any other comments to be brought before the group, either with folks in the room or anyone on the telephone? Okay. Hearing none, we're -- again, the record will be open until Friday, April 29 close of business. It's 11:05, and we'll adjourn the hearing. Thank you very much for participating.

(Ending time of the hearing: 11:05 a.m.)

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Sarah Pokorski, CCR 745

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