

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

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10                           COMMENTS AND TESTIMONY  
11           REGARDING PREMIUM STABILIZATION

12

13                           TRUMAN STATE OFFICE BUILDING

14                                   301 West High Street

15   ROOM 520B

16                           JEFFERSON CITY, MISSOURI 65102

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18                                   APRIL 26, 2016

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EXHIBITS

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1	Notice of Hearing	5
2	Missouri Department of Insurance Bulletin 11-02	5
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(Exhibit returned with transcript.)

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6           COMMENTS AND TESTIMONY REGARDING PREMIUM  
7 STABILIZATION held on April 26, 2016, between the  
8 hours of eight o'clock in the forenoon and six o'clock  
9 in the afternoon of that day, at the Missouri  
10 Department of Insurance, Financial Institutions and  
11 Professional Registration, 301 West High Street, Room  
12 520B, Jefferson City, Missouri, before Sarah J.  
13 Pokorski, a Certified Court Reporter and Notary Public  
14 within and for the State of Missouri, in a certain  
15 cause now pending before the Missouri Department of  
16 Insurance, Financial Institutions and Professional  
17 Registration.

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1 A P P E A R A N C E S

2

3 Panel:

John Huff

4 Jim McAdams

Rebecca Helton

5 Ross Kaplan

Angela Nelson

6 Brent Kabler

Jim Mealer

7 Julie Lederer

8 Witnesses:

Mark Johnston

9 Steve Witte

Charles Burhan

10 Jeff Estes

Mike Lane

11 Chuck Feinen

Kathy Popejoy

12 Brandon Koch

13

Court Reporter:

14 Sarah J. Pokorski, CCR

Missouri CCR No. 745

15 Midwest Litigation Services

711 North Eleventh Street

16 St. Louis, Missouri 63101

314-644-2191

17 1-800-280-DEPO

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

6

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\* \* \* \* \*

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(Exhibit 1-8 marked for the record.)

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11

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

12

13

MR. HUFF: Great. We're now on the record.

14

My name's John Huff. I'm director of the Missouri

15

Department of Insurance, Financial Institutions &

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Professional Registration. It is 9:02 on Tuesday,

17

April 26, 2016. We're in room 520-B of the Truman

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State Office Building in Jefferson City, Missouri.

19

The purpose of this hearing is to solicit testimony

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and information on the record from interested

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stakeholders as to the issue of premium stabilization

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practices. Generally speaking, premium stabilization

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practices are intended to moderate significant premium

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changes on a block of business. They are also

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sometimes referred to as rate capping or transitional

1 pricing rules. Specifically for purposes of our  
2 hearing today, we are soliciting information as to  
3 whether the Department should consider formally  
4 promulgating rules related to premium stabilization  
5 practices for property and casualty insurance products  
6 in the state of Missouri. Over the last year in  
7 particular, we've seen increasing attention being paid  
8 to property and casualty ratemaking practices. The  
9 federal insurance office, in its role as an insurance  
10 monitor, has indicated it will -- it will review the  
11 issue of the availability and affordability of private  
12 passenger automobile insurance. At the same time, the  
13 National Association of Insurance Commissioners --  
14 NAIC -- has been reviewing industry practices. At the  
15 recent spring national meeting of the NAIC, the group  
16 formally adopted a white paper on price optimization.  
17 A working group has been formed to study the issue of  
18 big data and its use by insurers, regulators and other  
19 third parties. There are also working groups looking  
20 at specifically the questions of affordability and  
21 availability of auto insurance, and other groups  
22 evaluating the need for and ways of increasing  
23 transparency in the property and casualty market.

24 A hearing on this matter is not required  
25 by law. This is an option that the director -- I

1 believe it's important that we have a public hearing  
2 to invite interested stakeholders and any member of  
3 the public to testify and to share their views  
4 regarding premium stabilization practices. In that  
5 regard, we've tried to structure a hearing that  
6 provides the best opportunity for all stakeholders to  
7 provide input to the Department as it considers its  
8 rulemaking responsibilities. The Department will  
9 consider all information and testimony given today, as  
10 well as any written comments submitted in conjunction  
11 with this hearing and its evaluation of this issue.

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

1 and see if there are any logistical questions either  
2 from the regulators or from interested parties.

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

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

1 start with Alabama.

2 MR. ANGELL: Charles Angell, deputy  
3 commissioner here.

4 MS. NELSON: Morning, Charles. Alaska.

5 MR. RICKER: Mike Ricker, property &  
6 casualty actuary.

7 MS. NELSON: Morning, Mike. California.  
8 Connecticut. Illinois.

9 MR. GERGER: Brett Gerger, property &  
10 casualty deputy director.

11 THE REPORTER: Can they spell their names,  
12 please.

13 MS. NELSON: We'll get them for you.  
14 Indiana.

15 MR. BEVERAGE: Richard Beverage, P&C  
16 actuary.

17 MS. NELSON: Iowa. Kansas.

18 MR. WINE: This the John Wine, assistant  
19 commissioner. We have Ken Abitz and Heather Droge,  
20 directors.

21 MS. NELSON: Thank you. Good morning,  
22 guys. Michigan. Minnesota.

23 MR. VIGLIATURO: Tammy Lohmann, filings  
24 director, and Phil Vigliaturo, property & casualty  
25 actuary.

1 MS. NELSON: Morning, guys. Nebraska.

2 North Dakota. Ohio. Oklahoma. Rhode Island.

3 MR. MAKE: Ron Make for Rhode Island.

4 MS. NELSON: Good morning. South Dakota.

5 Texas.

6 MS. BYCKOVSKI: J'ne Byckovski.

7 MS. NELSON: Good morning.

8 MS. BIKOWSKI: Morning.

9 MS. NELSON: Virginia.

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

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

18 MS. SEGURA: Hillary Segura, PCI.

19 MS. NELSON: Morning, Hillary.

20 MS. SEGURA: Morning.

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

23 MR. HUFF: Thanks, Angie. For everyone  
24 joining us by phone today, please make sure you keep  
25 your phone on mute unless you're speaking, and please

1 do not give us the dreaded hold button, because we  
2 will drop your call if we hear your music. We try to  
3 minimize background noise. Additionally, if you are  
4 speaking, please be sure you identify yourself and  
5 your affiliation so the court reporter can accurately  
6 reflect your comments or questions.

7           Just in terms of our agenda today, I will  
8 begin by identifying some documents which I intend to  
9 take official notice of. As I go through the  
10 documents, I will pause to see if anyone present or  
11 participating by phone has any questions or comments  
12 about those documents. Following that, Julie Lederer,  
13 our department's property and casualty actuary will  
14 provide a very short presentation on our general P&C  
15 ratemaking practices in Missouri to start our  
16 discussion today. And then Angie Nelson will give a  
17 brief overview of state regulatory actions related to  
18 premium stabilization. After that, we will take  
19 testimony from witnesses. We will start with those  
20 witnesses present in person or by phone who provided  
21 written comments. We will then proceed with testimony  
22 from other witnesses who have indicated a desire to  
23 testify. These witnesses will be heard in the order  
24 listed on the witness list. Witnesses may also be  
25 asked questions by the Department staff who are

1 present with us this morning, or by other regulators  
2 who have joined us by phone. Let me just pause there  
3 and ask if anyone -- if everyone actually who intends  
4 to testify today has had the opportunity to -- to sign  
5 the witness list. Everybody signed up? We'll work  
6 from the list. Looks like that's the case. If you  
7 change your mind -- whoops.

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

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

11 MS. NELSON: You're on it.

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

13 MS. NELSON: Charlie.

14 MR. ESTES: Charlie's on it.

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

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

18 MR. HUFF: Okay. FOC. Okay. Anyone else?  
19 Okay. So if you change your mind, witness list is  
20 available for you. Just indicate that you have not  
21 signed it. We'll make sure you get an opportunity to  
22 testify. Just to try to put some parameters around  
23 the structure, I think we'll -- we'll keep moving  
24 fairly smoothly, but each witness will be allowed no  
25 more than ten minutes to offer testimony on the

1 record. If any witness or other stakeholder wishes to  
2 make additional comments beyond that time limit, you,  
3 of course, are free to submit comments in writing by  
4 the close of business this Friday, April 29th, and  
5 then we'll close the record. If a witness is not  
6 substantially addressing the questions, or is only  
7 offering repetitive or cumulative evidence, I will, of  
8 course, exercise discretion to limit testimony to less  
9 than the full amount of time. I don't anticipate that  
10 will be an issue. I will use the information  
11 gathered, along with the information from other  
12 sources, to determine whether the Department will  
13 promulgate rules regarding premium stabilization  
14 practices, and if so, what the content of those rules  
15 will be. This in no way, shape or form alters the  
16 formal rulemaking process in the State of Missouri.  
17 This is whether we will promulgate rules, and if so,  
18 what the initial content will be. Let me pause there  
19 and see if there are any questions before we start.

20           If not, at this time, I intend to take  
21 official notice of comments and documents which will  
22 be entered into the record. Ross, I think you're  
23 going to help us make sure those are with the court  
24 reporter, which looks like you have. And are -- have  
25 these been posted yet, or not yet? They have been

1 posted online. So Exhibit 1, the notice of the  
2 hearing for this proceeding, and the detailed  
3 description for the submission of comments  
4 incorporated into the notice. Exhibit 1 is hereby  
5 admitted into the record. Exhibit 2, Missouri  
6 Department of Insurance Bulletin 2011-02 addressing  
7 personal lines, premium stabilization of renewal  
8 policies which expired on December 31st, 2012, and was  
9 subsequently withdrawn. Exhibit 2 is hereby admitted  
10 into the record. Exhibit 3, the State of Washington  
11 Department of Insurance rate stability rules,  
12 effective January 1 of 2013. Exhibit 3 is hereby  
13 admitted into the record. Exhibit 4, Missouri  
14 Department of Insurance Bulletin 16-03 requesting  
15 comments on premium stabilization. Exhibit 4 is  
16 hereby admitted into the record. Exhibit 5, written  
17 comments in response to insurance bulletin 16-03  
18 provided by the American Insurance Association, AIA;  
19 the Missouri Insurance Coalition, MIC; National  
20 Association of Mutual Insurance Companies, NAMIC; and  
21 Property Casualty Insurer's Association of America,  
22 PCI. Exhibit 5 is hereby admitted into the record.  
23 Exhibit 6, supplemental written comments in response  
24 to insurance bulletin 16-06 provided by the Missouri  
25 Insurance Coalition. Exhibit 6 is hereby admitted

1 into the record. Exhibit 7, written comments in  
2 response to insurance bulletin 16-03 provided by  
3 Liberty Mutual Insurance. Exhibit 7 is hereby  
4 admitted into the record. And finally, Exhibit 8,  
5 written comments in response to Insurance Bulletin  
6 16-03 provided by State Farm Insurance. Exhibit 8 is  
7 hereby admitted into the record. Any further  
8 questions or discussions regarding those documents?

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

16           MS. LEDERER: Yes.

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

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

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

19                   The output of the actuary's analysis is  
20 usually rates, meaning estimates of future costs per  
21 exposure unit associated with an individual risk  
22 transfer. In other words, a rate applied to the  
23 number of exposure units yields the premium. However,  
24 the work doesn't end there. There may be other  
25 considerations that affect the final price charged to

1 the policyholder, as acknowledged by many actuarial  
2 communications. In chapter nine of Basic Ratemaking,  
3 Werner and Modlin state that marketing, operational  
4 and regulatory considerations may cause management to  
5 deviate from the indicated rates. Similarly, in the  
6 statement of principals, the CAS mentions marketing  
7 goals, competition and legal restrictions. Finally,  
8 the Actuarial Standards Board is drafting a new  
9 actuarial standards practice on P&C ratemaking.  
10 Section 1.2 of the second exposure draft mentions  
11 marketing goals, competition and legal restrictions as  
12 considerations that can influence the premium. All  
13 three of these documents exclude the other  
14 considerations, marketing goals, et cetera, from the  
15 scope of the communication. So while there is a lot  
16 of concrete guidance available on ratemaking, there is  
17 not much to lean on when it comes to the determination  
18 of the final price. So these documents don't touch  
19 this topic, but we will, because this is where premium  
20 stabilization fits into the premium-setting process.

21           At this point, it would make sense to  
22 give a definition of premium stabilization, but that's  
23 not a trivial question, because different parties  
24 define the term differently. But most parties agree  
25 on at least two points. That premium stabilization

1 involves moderating premium changes on a  
2 segment-by-segment or block-by-block basis, and that  
3 the premium reaches the uncapped level in a finite  
4 period of time.

5           The next four slides give a graphical  
6 depiction of premium stabilization. This slide shows  
7 the final changes with no premium stabilization  
8 procedure. This premium change could be revenue  
9 neutral, but some policyholders are getting large  
10 increases: 35 percent are getting a 50-percent  
11 increase; 13 percent are getting a 25-percent  
12 increase. And some are getting large decreases: 35  
13 percent are getting a 50-percent decrease; and 13  
14 percent are getting a 25-percent decrease; and 4  
15 percent are getting no change. But suppose this  
16 insurer implements a capping procedure whereby the  
17 premium changes are limited to plus or minus 20  
18 percent per annual policy period. Then in the first  
19 year, the policyholders whose final premium changes by  
20 50 percent or 25 percent only face a 20-percent  
21 change. In the second year, the plus or minus 25  
22 percent policyholders have reached their final  
23 premiums; the plus or minus 50 percent policyholders  
24 are now at plus or minus 40 percent, and they reach  
25 their final premium in year three. There are two main

1 situations in which premium stabilization is used.  
2 The first is to moderate large premium changes for  
3 renewal policies when there are changes in base rates  
4 or rating factors, new rating factors, new rating  
5 plans, formulas or models, and so on. Premium  
6 modification in these situations is often called rate  
7 capping or premium capping. The second main use of  
8 premium stabilization is to moderate changes in  
9 transition situations, when policyholders move from  
10 the rating methodology products and base rates of one  
11 company to another. These types of transitions can  
12 happen when there's an agent book roll, the insurer  
13 acquires a block of business, business from a legacy  
14 company is rolled into a new company, and so on. In  
15 these situations, the procedures are often called  
16 transition rules.

17           Finally, I'll briefly go through three  
18 common arguments for and against premium  
19 stabilization. We can discuss these at greater  
20 lengths during this hearing. But for now, the goal is  
21 simply to introduce the arguments for those who may  
22 not be as familiar with the topic. Argument number  
23 one says the procedure may result in rates that are  
24 excessive or inadequate, which violates Missouri law.  
25 One counter argument is that premiums converge the

1 uncapped premium within a finite number of policy  
2 periods. Another is that gradual transitions may  
3 better reflect the uncertain nature of actuarial  
4 estimates. A response to this counter argument is  
5 that premium stabilization is not the appropriate way  
6 to address uncertainty in the estimates. Argument  
7 number two says that premium stabilization may result  
8 in rates that are unfairly discriminatory, which also  
9 violates Missouri statute, since policyholders with  
10 similar risk profiles could be charged different  
11 prices. A common counter argument is that it is not  
12 unfairly discriminatory as long as the rules are  
13 applied consistently and uniformly. Argument number  
14 three, which is in favor of premium stabilization,  
15 says that it steadies the insurance marketplace.  
16 Policyholders benefit from smooth premium changes, and  
17 insurers benefit from reduced market disruption, which  
18 in turn reduces acquisition cost and lowers premiums.  
19 One counter argument is that prevention of  
20 policyholder disruption should not be a central  
21 objective in a competitive insurance market. If  
22 policyholders are dissatisfied with large, uncapped  
23 premium changes, they should be encouraged to seek  
24 quotes from other insurers. A response is that  
25 policyholders are always free to compare prices, but

1 switching insurers may lead to a loss in customer  
2 longevity discount. Another counter argument is that  
3 premium stabilization masks the true final premium so  
4 policyholders aren't triggered to shop around or seek  
5 quotes from other insurers.

6 And that concludes my presentation.

7 Thank you.

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

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

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

20 MS. SEGURA: Thank you.

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

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

17 So I will first begin with giving an  
18 overview of the actions taken by this Department, and  
19 then I will highlight other jurisdictions' regulatory  
20 policies and guidelines. This Department first  
21 started receiving rate filings which contemplated  
22 premium stabilization in the early two thousands. The  
23 first situations presented to the Department for its  
24 consideration were related to merger and acquisition  
25 activity, and premium stabilization was intended to

1 transition newly acquired policyholders into a  
2 company's existing ratings structure. Over time, we  
3 saw the application of premium stabilization expand to  
4 situations where, for example, within a group of  
5 affiliated companies, underwriting companies were  
6 realigned. In response, the Department developed an  
7 internal set of guidelines in roughly 2006 that were  
8 used to assist our product analysts as they reviewed  
9 and contemplated filings that included premium  
10 stabilization. Following that year, the use of  
11 premium stabilization continued to expand, and  
12 eventually grew to include situations where revisions  
13 to rating plans within the same underwriting company  
14 would result in significant policyholder disruption.  
15 And then we found premium stabilization also grew to  
16 allow companies to moderate implementation of  
17 significant rate increases. In 2010, the Department  
18 convened a group of stakeholders to explore and  
19 discuss potential guidelines regarding premium  
20 stabilization. This group of stakeholders included  
21 academics, consumer advocates, industry  
22 representatives, and Department staff. In January,  
23 2011, bulletin 11-02 was issued, based in part on  
24 those stakeholder discussions. Bulletin 11-02  
25 established a regulatory safe harbor for premium

1 stabilization practices as those were applied to the  
2 personal lines of property and casualty insurance.  
3 The scope of the bulletin addressed the use of premium  
4 stabilization to moderate the transition between  
5 renewals for existing customers.

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

1 expired on December 31st, 2012.

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

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

22           Turning to other jurisdictions'  
23 regulatory policies, actions or guidance, there is a  
24 wide variance of regulatory approaches to premium  
25 stabilization. There are some states that have taken

1 a very strict interpretation of those excessive,  
2 inadequate or unfairly discriminatory standards, and  
3 have prohibited the use of any premium stabilization  
4 practices. However, it does appear that the vast  
5 majority of states permit at least some limited forms  
6 of premium stabilization. How these standards are  
7 presented or effectuated varies as widely as the  
8 standards themselves. So I want to highlight just a  
9 few of these different regulatory approaches.

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

25 The Colorado Department of Regulatory

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

20 The Washington Office of Insurance  
21 Commissioner promulgated rule 284-24-130, which became  
22 effective January 1st, 2013. This rule, which applies  
23 to only personal lines of property and casualty  
24 insurance, identifies three specific scenarios which  
25 the rules deem appropriate for the use of what they

1 have called rate stability rules. Those three  
2 scenarios are revisions of rating plans, the  
3 acquisition of a book of business from an unaffiliated  
4 insurer, and third, moving or receiving business from  
5 an affiliated insurer. The rule specifies that rate  
6 stability must not be used as a means to extend  
7 previously filed rate stability filings and cannot  
8 substitute for multiple base rate filings that will  
9 have a similar impact on all policyholders. An  
10 example that they gave in the rule is that a company  
11 which has a rate indication of a 20-percent increase  
12 cannot file a rate stability plan that would implement  
13 two 10-percent rate changes one year apart. Like  
14 Louisiana, Washington prohibits the use of rate  
15 stability on premium changes resulting from changes in  
16 coverage, exposure, policyholder characteristics, or  
17 from subsequent rate changes by the insurer. Again,  
18 echoing Louisiana's process, Washington's rule limits  
19 rate stability to a 10 percent or greater premium  
20 change for an annual policy, or 5 percent or greater  
21 for a semi-annual policy.

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

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

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

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

1 Missouri bulletin 11-02 required.

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

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

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

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

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

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

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

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

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

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

20 MR. JOHNSTON: Thank you. I think first of  
21 all, I want to thank the Department for having this  
22 hearing. Over my years of doing this business, I've  
23 seen the results when states have promulgated things  
24 without adequate planning. And then during the  
25 rulemaking process, there's often the need to fix

1 things that could have been prevented earlier. So I  
2 think this dialogue -- this exchange of information is  
3 very helpful, and we really -- we definitely  
4 appreciate it. As you see, we have with the other  
5 national trades -- AIA, PCI and Missouri Insurance  
6 Coalition -- submitted comments prior to the March  
7 17th deadline. And for the record, we are -- we are  
8 reaffirming our commitment to those comments. I don't  
9 have much more to add at this time. I think that we  
10 have a competitive market here in Missouri, and the --  
11 whatever rulemaking we do should protect the  
12 competitive nature of the market, and to provide  
13 certainty for companies that need -- need it to  
14 operate down the road. There will be people talking  
15 afterwards that can actually -- who actually  
16 understood what Angie was speaking. That's not me.  
17 So I will defer to them. But again, the -- we, by and  
18 large, think the bulletin that -- and the safe harbor  
19 that existed earlier in the decade was a -- a good  
20 step. And we would like to see a policy that reflects  
21 that going on.

22 MR. WITTE: Good morning. We generally  
23 support the -- the exploration into this issue,  
24 because a lot of our members, when the bulletin was  
25 officially rescinded, even though it expired a year or

1 so earlier, were concerned about the effect of -- of  
2 the premium stabilization rules that they were  
3 employing. And we still get a lot of phone calls from  
4 a lot of our members on this issue. And we would like  
5 to see something as flexible and not more stringent  
6 than the bulletin was. We think that some type of  
7 rule should be promulgated in this area so we have the  
8 regulatory certainty that, you know, an administrative  
9 rule would provide. Other than that, we look forward  
10 to working with you on this issue. We would like to  
11 be part of any working group or -- you know, any type  
12 of -- any type of working group or exploratory body  
13 that you might form to explore this issue, we'd like  
14 to be part of that. And we have several members who  
15 would like to be part of that as well. That's  
16 basically all I have to say on this issue.

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

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

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

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

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

25           MR. JOHNSTON: Well, I -- I support that as

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

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

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

1 issue.

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

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

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

19 MS. NELSON: I'll follow up just with what  
20 the -- what the director said. And I think his point  
21 is I think a very sage one for us, because I think as  
22 insurance regulators, you obviously key on an issue  
23 that's very important to us, and that is that we don't  
24 like to have large rate increases, we don't like to  
25 have a lot of policyholder disruption. And so to that

1 extent, these premium stabilization practices kind of  
2 are an easy fix. But when we look at what we say is  
3 the true competitive nature of that environment, you  
4 know, these practices really are taking that  
5 competitive nature out. It's masking what is actually  
6 going on, and it is not allowing consumers to go out  
7 and truly shop around for the best coverage at the  
8 best price. And I think that's the balance that we're  
9 struggling with trying to strike. And I'm -- and I  
10 appreciate what you all are saying, and you know,  
11 obviously again I think as regulators, there is a very  
12 strong argument for trying to avoid policyholder  
13 disruption. But help us answer that key question of  
14 why this is not harmful to the competitive nature of  
15 the auto insurance market or the homeowner's insurance  
16 market.

17 MR. JOHNSTON: Well, let me give you an  
18 example in a different context. And that is I think  
19 soon to be Professor Hartwick from South Carolina used  
20 an example in another discussion of a family takes on  
21 a new driver, say there's a young lady who just turned  
22 16, and she's been added on to the family policy. The  
23 risk presented by that young driver is greater  
24 probably than the premium that's going to get  
25 collected. But if all parents were to face this --

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

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

24 MR. JOHNSTON: Well, I -- let me answer the  
25 second one first. And that is, again, with the

1 competitive market, if there is a bait and switch, and  
2 with the -- so many different access points to the  
3 market through the internet and through agents and all  
4 of that, I think that there is -- there is the ability  
5 to make that move. It's not like people are locked  
6 into a serfdom relationship. As for disclosure, I --  
7 that's kind of the -- an answer suggested for many  
8 problems. As a lawyer, you know, we love disclosure.  
9 I think it proves that something has happened, and  
10 that is the -- on the -- it's something that the  
11 customer has responsibility -- and the customers do  
12 have responsibilities here. However, having -- I'm  
13 not exactly the person that reads every privacy data  
14 practices newsletter I receive from my credit card and  
15 bank. And I think a lot of that stuff just ends up  
16 destroying redwood trees, and so -- to little real  
17 value for the consumer. But that being said, I don't  
18 know what the alternative sometimes is to disclosure.

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

21 MR. WITTE: Well, I think Mr. Johnston  
22 summarized what I would probably say. I mean, it's a  
23 competitive market. If someone believes that they  
24 were given an artificial price or an artificial  
25 premium for a small period of time, and it's back to

1 its actuarially sound price, I think there's many  
2 avenues for the -- for the consumer to go out and shop  
3 around. I mean, this is something that needs to be  
4 explored from -- from the get-go. Perhaps someone  
5 who's been given an artificial price to smooth the  
6 transition from what the price should be versus what  
7 it is is something we need to study more. But I mean,  
8 with today's market in Missouri being so competitive,  
9 I think if the consumer would have -- would employ his  
10 natural tendency to want to serve him or herself,  
11 they'll go out and shop around and try to find a  
12 better price.

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

15 MS. NELSON: On behalf of your membership,  
16 you know, again, as I was looking at what approaches  
17 other jurisdictions have taken, Washington really  
18 struck me. Because they do have a number of  
19 parameters that, quite honestly, our old bulletin had  
20 not contemplated. Some of those are, you know,  
21 excluding any capping based upon the changes in the --  
22 in the policyholder's risk themselves, changes in  
23 coverage, exposure, et cetera, et cetera. My  
24 question, especially for you, Mark, at a national  
25 trade level -- obviously the Washington rule has been

1 in place for a couple of years. How are your carriers  
2 responding to that rule in Washington? Are those  
3 parameters causing a lot of difficulty? Or does it  
4 seem perhaps that they're able to operate within those  
5 constraints fairly well?

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

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

25 MR. JOHNSTON: I'm happy to.

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

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

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

15 MR. KAPLAN: Thank you.

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

18 MR. JOHNSTON: You're welcome.

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

1 please.

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

11 MR. BURHAN: Good morning. My name is  
12 Charles Burhan, spelled B-U-R-H-A-N. I'm an assistant  
13 vice president for public affairs at Liberty Mutual.  
14 And I've been lobbying this state for almost twenty  
15 years, and half the country for about thirty-five or  
16 forty years. First, I want to thank the director and  
17 members of the panel and telephonic regulators for the  
18 opportunity to address this topic. I did have the  
19 chance to serve in the 2010 task force. And thank you  
20 for reminding me about the date. I couldn't recall  
21 it. I want to start by saying I recall very clearly  
22 that the consumer affairs representative, who I think  
23 was actually calling in from a conference in Beijing  
24 for one of the meetings, stressed at the first  
25 presentation by industry reps that he thought that

1 rate capping was such a good concept he was surprised  
2 the Department was having a meeting to try to curb its  
3 overall influence, its impact. So we do believe that  
4 rate capping is a proper tool to be used both by  
5 regulators and by the industry. It has clearly  
6 resulted in a very competitive market. You cannot  
7 stress that enough. But I think we fail to understand  
8 how competition takes place. Competition between  
9 carriers entails the evolution of rating plans, it  
10 entails the -- the natural outreach, which is  
11 extensive. And to be competitive, you have to  
12 constantly look and see where your risks are taking  
13 place, and then try to come up with a balanced overall  
14 rate that makes you competitive and doesn't cause  
15 disruption. Because one thing that is -- is it  
16 Lederer?

17 MS. LEDERER: Lederer.

18 MR. BURHAN: Lederer. I'm sorry. Your  
19 actuary indicated on page 11, argument number three, I  
20 would only add that the consequences of not having  
21 rate capping is higher acquisition cost as replaced  
22 churn factor, the shifting ratio of green business to  
23 seasoned business so the overall experience of both  
24 degrades, which does not benefit the customers who  
25 remain, and hence they're more inclined to leave. So

1 the natural consequence of capping is to attenuate  
2 those huge swings. And I don't know of any regulator  
3 in any part of the country I've ever been in in almost  
4 forty years has ever said gee, we love huge swings in  
5 pricing, let's do that over and over again. And I  
6 think also it's important to recognize that not only  
7 are you one of the most competitive states, I think  
8 you have one of the lowest complaint ratios. When I  
9 look at my complaint ratios in Missouri, they're  
10 record low. And to me, that's a sign that it's a  
11 competitive market, but also a fairly competitive  
12 market.

13 MR. ESTES: Thank you. I just want to say  
14 that I also appreciate what you've done, you know, the  
15 work that you've done with rate stabilization. We  
16 don't like to be surprised. We like the comfort and  
17 the confidence that comes that we're meeting the  
18 guidelines, the rules and regulations that you have in  
19 place. And so bulletin 11-02 was -- was very much  
20 appreciated. And we felt like it provided us with the  
21 tools that we needed to care for really thousands of  
22 policyholders. I will say that the comments I'm about  
23 to share are specific to Missouri. I know there are  
24 regulators on the -- on the phone from other states.  
25 I'm not speaking to those states, I'm speaking

1 specifically to my experience with Missouri and  
2 bulletin 11-02. And I would just state that in  
3 general, we appreciated it, we're in agreement with  
4 it. I appreciated slide 19 that you shared that  
5 provided the transition rules in terms of providing  
6 clarity. I would say -- I want to limit my comments  
7 to just some ways that I think 11-02 can be enhanced.  
8 Just some things to think about. You know, and we'll  
9 be happy with, you know, the result. But -- but I  
10 think there were some things that we could do to  
11 enhance it. And -- and one of those things is to make  
12 certain that we do clarify those groups that you  
13 provided, Ms. Lederer, on slide 19, in terms of that  
14 transition business. I think the past bulletins have  
15 not been as clear in that respect. And certainly, we  
16 are running into more situations where we are seeing  
17 transfer of a business from -- on the independent  
18 agency side where I have an agency that had a carrier,  
19 terminated the relationship with the carrier, they're  
20 bringing the business over. It might be the purchase  
21 of another book of business. It might be somebody who  
22 failed in the marketplace and other carriers are  
23 seeking to -- to bring that business over in a smooth  
24 fashion. So -- so if we could clarify and make clear  
25 just that issue of transition, I think that would be

1 very helpful. The discussion that you had previously  
2 on the number of years, I got a little nervous when  
3 you were talking about one year and two years. I  
4 remember prior to 11-02, really, the guidelines that  
5 were in place, a rule of thumb, whether or not it was  
6 written or not was that we were looking to transition  
7 that business in two years. And that occurred at a  
8 time when property -- and particular, homeowners --  
9 was -- was really unstable. We had a lot of weather,  
10 and the industry was taking a lot of rates, and -- to  
11 get to the uncapped rate level in two years really did  
12 not create a situation where we were smoothing  
13 premium. Customers don't think a 40-percent increase  
14 is a smoothed, you know, premium. So, you know, I  
15 think that, you know, while we appreciate four years,  
16 I definitely am on board that -- that we need to have  
17 a finite number of years. If we file that and we --  
18 and we move to finite number of years, we need that in  
19 terms of making certain that our experience is good,  
20 that we're not -- that we're profitable. But I think  
21 that in a period -- in a time when the market is very  
22 stable, and we don't see any rate changes, per se, I  
23 think four years is fine. But if we're in a place  
24 where the market is very unstable, we're seeing a lot  
25 of movement in terms of rate, it would be helpful to

1 look at something a little longer, five, six years,  
2 you know, maybe something beyond that. So just there  
3 for food for thought that we appreciate four, we don't  
4 want less, we would appreciate more. But make certain  
5 it's -- we would make certain that it's finite. I  
6 would say that the other thing that I would add in --  
7 in -- I would ask you this. With respect to bulletin  
8 11-02 and the forms that we had, I definitely agree,  
9 you know, we need to file what our capping tables are.  
10 We need to provide you with all the specific  
11 information related to that. There are some  
12 Missouri-specific forms in there. They were -- under  
13 point two, they were items six, seven and nine, page  
14 two. They're illustrated in pages three through  
15 seven. If -- if you don't use that information, if  
16 you don't find it to be valuable, I will say that it  
17 adds time and expense to our filings. It's  
18 complicated. It's -- it's a one-off for us. It's  
19 Missouri-specific. Just like you, I have new analysts  
20 and new actuaries, and we have to go through a time of  
21 training to bring them up to speed. We want to make  
22 sure that we're absolutely accurate. But it does take  
23 us a little more time and adds cost and expense to  
24 that. So if that's something that you find yourselves  
25 not using -- it's nice to have versus need to have --

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

3 UNIDENTIFIED SPEAKER: Morning.

4 MR. HUFF: Good morning.

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

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

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

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

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

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

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

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

23           MR. ESTES:  Yeah.  I have some -- I have  
24 some thoughts on that.  I don't think we would be  
25 using rates that are -- are unfiled.  Because I think

1 about, you know -- you know, we're -- we've used --  
2 we've appreciated the guidance, the safe harbor that's  
3 provided by 11-02. But with respect to filed rates,  
4 you know, we're providing you with our tables.  
5 We're -- we're showing you the capping factors. We've  
6 given you an algorithm. And we can very clearly show  
7 we've filed with you everything related to rate  
8 stabilization. And when you think about where it  
9 falls in terms of the rate order calculation, you have  
10 your premium, and then you apply your factor. And  
11 that factor can be -- can be replicated by market  
12 conduct by whoever. So we are using filed rates.  
13 We're giving a rate that's promised. We -- we're not  
14 just making something up. And we are moving to the --  
15 the final capped rate level.

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

1 MS. SEGURA: I'm here.

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

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

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

25 MR. ESTES: I want to go back, if I could,

1 to the other question that you asked, just about what  
2 do we think this does in terms of benefiting  
3 customers. I think that -- that premium  
4 stabilization, over the long run, will actually result  
5 in lower rates and more competitive -- a more  
6 competitive marketplace for Missouri. I think about  
7 all of the stories -- I had friends who were living in  
8 England, and they had one-year policies that the  
9 market was such that they used aggregators, everything  
10 was -- you could say the maximum in terms of  
11 transparency, because you could look at everybody's  
12 rate. They were there for one year, and so, you know,  
13 their rates were -- were -- had to include acquisition  
14 costs, it had to include every -- everything about it.  
15 We recognize that -- that the loss ratios are  
16 improving. As we develop a relationship with the  
17 customer, we sell extra policies. You recognize the  
18 value of -- of multi-policy discounts in -- in rating  
19 with probably better company that we have in the  
20 marketplace. And so -- so the fact that we have a  
21 customer that we know their experience is more stable,  
22 our expenses are less, and I think that translates to  
23 more stable and lower rates for customers as a whole.  
24 I think about periods of transition where our agents  
25 have had disruption, they've had carriers -- my

1 independent agents have had carriers who have canceled  
2 their contracts en masse, or left the market, and then  
3 that agency spends a lot of time just trying to  
4 rewrite that business and redirect that business. And  
5 that leads to inefficiencies in their offices and  
6 greater expenses. The other thing I would say about  
7 longevity is just the value that, you know, our agents  
8 in Missouri bring to us, in that -- we think about  
9 Joplin, we think about other tragic events that we've  
10 had. The fact that customer had a relationship with  
11 an agent, versus somebody that they went from one year  
12 to the next, to the next, to the next, and it was an  
13 impersonal sort of relationship, that that made a big  
14 difference, just in terms of having -- walking through  
15 that trauma and having their home rebuilt and doing  
16 all those things necessary. So I think there are a  
17 lot of positives to premium stabilization. Lower  
18 rates, greater customer loyalty, service in the  
19 community, you know, the opportunity to provide  
20 customers that we know better service because of the  
21 fact that our agents know them personally, I think --  
22 I think there's value associated with that.

23 MR. BURHAN: To the pending question,  
24 transparency, I always believe in disclosure, and I  
25 always believe it's important to understand what

1 you're buying. But having said that, there was a  
2 famous study -- it was actually a test run by a -- a  
3 bank out of Philadelphia, reported by NPR in the mid  
4 nineteen-eighties, where those long stuffers required  
5 by the federal government -- buried in the middle of a  
6 fifty-page, very tiny print was a line saying if  
7 you've read this far, you're eligible for a contest,  
8 call this number. Out of the millions of mailings  
9 sent out, they got zero phone calls back. So the  
10 question is what is the best way to convey that  
11 information. I think the Department may be first the  
12 best point in terms of your own website and indicating  
13 to customers that your rate is created by this, which  
14 creates the premium, and it may or may not contain  
15 some elements of rate stabilization, so there is no  
16 rate shock. That's probably the best place to start  
17 that. And it may be a good way for the industry as a  
18 whole to discuss -- and I'll plug the summit -- your  
19 summit on October 13th in Kansas City. I hope you  
20 have task forces discussing that concept. The problem  
21 with carriers doing it -- and I'm not an attorney --  
22 the problem, if you ask somebody to put that out, is  
23 you're asking for a series of law suits on what was  
24 that meant to indicate, is that clear enough, and  
25 that's an ongoing mess, as opposed to consumer

1 education. And in a time period when, you know, we  
2 know the insurance marketplace is going to change  
3 dramatically in the next five years, not just a  
4 question of will there be a Google car and Google  
5 insurance, but how many young people will be driving  
6 cars at all, how much car ownership will take place,  
7 how will cars be rated, either by the mile or by  
8 fractions of exposure units. And people understand  
9 what the purpose of insurance is, which is basically  
10 being responsible and helping your fellow driver and  
11 your fellow citizen. So again, I think the Department  
12 would be the first place to start, and I'd like to  
13 work with you on that.

14 MR. HUFF: Thank you. And any other  
15 questions from the panel? So it's been suggested, if  
16 you -- if you wouldn't mind, maybe we'll take a quick  
17 break now, and come back to see if there are any  
18 additional questions for Liberty Mutual. So it's  
19 10:10 central time. And let's take ten minutes.  
20 We'll come back at 10:20, and -- and then we'll make  
21 sure we're cleared up on the phone. If folks want to  
22 stay on hold or call back, it's your call, but we'll  
23 resume at 10:20 a.m.

24 (OFF THE RECORD.)

25 MR. HUFF: I think we'll go ahead and try

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

14 MR. BURHAN: I just want to add one more  
15 element that may not have been in the Liberty  
16 presentation submitted to the Department. Because the  
17 Department indicated this is for property and casualty  
18 lines, I assume that part of the scope will be the  
19 clarification of rate stabilization for commercial  
20 lines as well. And -- and certainly there are strong  
21 distinctions between commercial products and personal  
22 products. So to your question, Director Huff, about  
23 clarification and transparency, there are different  
24 needs of transparency given the broker environment for  
25 commercial lines and the sophisticated buyer who may

1 need commercial lines of policies. So I certainly  
2 hope that the level of clarity and modality difference  
3 between personal lines customers and commercial lines  
4 customers -- and I would certainly encourage the  
5 Department in their organic and forceful thinking  
6 going forward to consider the benefit to rate  
7 stabilization for all aspects of commercial policies,  
8 including those currently not allowed.

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

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

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

17           MR. ESTES: No.

18           MR. HUFF: Okay. Angie Nelson.

19           MS. NELSON: Well, I'm going to pick up on  
20 his theme of commercial insurance. And so mine is  
21 very, very, very, very specific. And that is with  
22 regard to workers' compensation. We've had some  
23 conversations about previous stabilization as that  
24 would apply to workers' compensation. And one of the  
25 issues that I've struggled with in terms of -- of

1 whether it would be permissible and the benefits of  
2 it, but more of a practical constraint in my mind is  
3 the statistical plan. And so how -- how would that  
4 premium stabilization factor into our stat plan  
5 in terms of the data that's reported up? You know, we  
6 rely on that data very heavily in terms of what is the  
7 average pure loss cost, what are average premiums, et  
8 cetera, et cetera. My concern is that without some  
9 sort of mechanism in place -- like for instance, we've  
10 got reporting codes for schedule rating debits and  
11 credits -- all those things lets those premiums get on  
12 level so that we have a better insight as to what's  
13 going on. I don't know how we do that with premium  
14 stabilization of workers' compensation. And my fear  
15 is would we be diluting the data or missing data that  
16 would be very useful to us. So that's been my  
17 concern. And I don't know if you all have any  
18 thoughts on that.

19 MR. BURHAN: Feel like I'm doing a Jeopardy  
20 show. The degree to which NCCI believes the reporting  
21 data that Liberty provides to them since we initiated  
22 work comp modeling in this state a few years ago -- I  
23 don't think we're seeing that degradation of data.  
24 And Liberty is a very strong member of the NCCI, and  
25 we work closely with them on all the stat codes and

1 the data analysis and everything else. If there's a  
2 concern -- it's the first time I've heard this raised,  
3 but I like the question. I think part of any working  
4 group should include that question. Certainly it's a  
5 good goal as you work towards allowing deviation and  
6 stabilization of comp, to make sure the data is  
7 correct and relevant. And I'm sure MSTTA would like to  
8 be part of that working process, as would Liberty.

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

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

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

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

19 MR. ESTES: Well, I do appreciate the fact  
20 that we can come back to you and -- you know,  
21 certainly the -- the plan that we put in place -- we  
22 have one plan in place for rate stabilization, and we  
23 have the ability to amend that each year based upon  
24 the level of rate need that we have. And so I  
25 would -- I would like that -- which was provided for

1 in 11-02 -- to continue to be available, because the  
2 market is ever-changing. If I were in a position  
3 where, you know, everything was stable, loss costs  
4 were the same, and I could count on, you know, three  
5 percent, four percent, whatever the rate was from one  
6 year to the next, it would be great. But we have  
7 those times with property, obviously a few years back  
8 where it was very unstable and the industry as a whole  
9 needed a lot of rate, and they were taking rate, and  
10 that need was different in terms of, you know, capping  
11 ranges and things like that. You know, I'll be  
12 careful. You know, no anti-trust preamble was read.  
13 But I would just say that, you know, I'm fearful when  
14 I look to the future, you know, I see some instability  
15 in another product line, I see rising severity and  
16 frequency, and I think we're about to enter a time  
17 where a different line -- I'll keep myself safe by not  
18 mentioning it -- you know, requires more rate. And --  
19 and so for that reason, I think we're going to need  
20 adjustments in that. But if we file it every year, we  
21 show you a path to -- to that finite period, whether  
22 it's four, five or six or whatever, you know, I think  
23 we're fine. I do agree with you that we need a  
24 separate plan for that transition business, because  
25 the ranges are not of our making. It's -- it's what

1 we're coming into with somebody else's book of  
2 business and -- and our rating plans are just very  
3 different at times. It could be that the overall  
4 average rate levels are similar. But just in terms of  
5 the -- the factors that we have versus somebody else  
6 are so different that it just -- we just need to have  
7 a smooth transition. And you could say, you know,  
8 send it out, let, you know, free market take care of  
9 that. And certainly when we -- when we goof up, if we  
10 have a large rate increase, our customers are not shy  
11 about shopping. And on the independent agency side of  
12 things, I have agents who have rules in place that  
13 says that -- you know, they look at the renewals, and  
14 they see somebody over X percent, they're calling that  
15 customer, and they're talking to them to try and  
16 retain that business, and they have other markets and  
17 they will requote that business. So -- so you know, I  
18 think we need two different plans, one for transition,  
19 one for the other, and then the flexibility to refile  
20 it.

21 MR. BURHAN: The question you're posing has  
22 come up in other states as well. And I think my  
23 recollection, Ohio was the station between a  
24 substantive model change and a model tweaking. And  
25 that is in part a problem with the regulator. And

1 certainly you should not scam the system to the point  
2 where a well-intended rule is abused because you're  
3 really not changing anything. So -- but by the same  
4 token, I think the regulator has to have very clear  
5 guidelines on what constitutes a major model refresh,  
6 because the models do cause that disruption, but the  
7 models are necessary to have the most accurate  
8 granular rating possible, which in my mind is the  
9 fairest rating possible. I think Jeff's comments  
10 about flexibility in terms of dislocations caused by  
11 what we're seeing is a record confluence, the epic  
12 storm between higher frequency and higher severity,  
13 which was unexpected. If that trend continues -- and  
14 it should, when you think about it, because we have a  
15 record number of new cars being purchased for several  
16 years in a row --

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

18 MS. NELSON: Duly noted.

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

1 as possible. I'm getting hungry.

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

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

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

24 MR. BURHAN: Especially those -- that  
25 answer from Jeff -- it would be helpful also if those

1 guidelines were made very clear ahead of time,  
2 submitted for issues like record retention to make  
3 sure those records are quickly and readily available  
4 for your team.

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

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

14 MR. HUFF: Maybe.

15 MR. ESTES: I will tell you that my  
16 independent agents -- beautiful thing about  
17 independent agents is -- is if one carrier's not able  
18 to provide that particular need, they have other  
19 carriers that do that. They do have conversations  
20 about that. And I'll also say that my St. Louis  
21 agents in particular, they're looking for something  
22 different in terms of a rate or deductible. They do  
23 have a couple of excess and surplus markets that they  
24 use and are satisfied with. So they do have those  
25 conversations. When a company does take some sort of

1 adverse action, whether it's increasing a deductible  
2 or -- or -- or, you know, not being -- not writing  
3 that coverage, notification is provided. And I'll  
4 tell you, our agents are so concerned about their  
5 excess and -- about E&O coverage that they're very,  
6 very clear about that, and very likely have sign-offs  
7 in their files to that effect.

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

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

19 MR. ESTES: I think the key thing when I  
20 think about this -- so I'm here speaking on behalf of  
21 Liberty Mutual, but I know that there are a lot of  
22 companies out there that have different degrees of --  
23 of resource and skill in terms of doing that. And the  
24 simplest cap is certainly one that just looks at last  
25 year's premium, compares it to this year's premium,

1 you know, divides it, looks at the rate difference and  
2 applies a factor. And that's a very, very simple cap.  
3 And that may be all that certain companies have the  
4 sophistication to do. We certainly -- when I look  
5 at -- at what we do, particularly with respect to  
6 homeowner's risk, you know, we'll look at what are the  
7 things that was changed, and what are the  
8 customer-initiated changes. And we'll differentiate  
9 those things. We have certain factors that we cap,  
10 certain ones that we allow to flow through. So if a  
11 customer, you know, buys a new option, they add a  
12 piece of jewelry, they have something like that,  
13 that's something that they initiated, they purchased  
14 extra coverage, that's not subject to -- to a cap.  
15 But if I did something, if I changed my factors for  
16 protection class, if I did something else -- something  
17 else that -- that did have impact, and it was company  
18 initiated, those would be the types of things that we  
19 would be more likely to do. So I think that we're  
20 already doing a number of the things that -- you know,  
21 like you mentioned --

22 MS. NELSON: Right.

23 MR. ESTES: -- you know, some of the other  
24 states. Again, I'm not an expert on any other state.  
25 I work with Missouri. I occasionally work with other

1 states. But this is my bread and butter.

2 MS. NELSON: Missouri would be your  
3 favorite state.

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

10 MR. BURHAN: More importantly, he plays  
11 golf with his customers, too. This is a country with  
12 at least fifty major insurance markets, if not even  
13 more, including metropolitan markets. And what works  
14 well in some states does not always work well in other  
15 states. In some states they're very progressive.  
16 Other states feel more comfortable not doing things  
17 any different than they did from decades previous. I  
18 like pioneering innovation. Having said that, we all  
19 need certainty. And going back to the comments from  
20 Jeff and the previous witnesses, the original  
21 bulletin, I believe, should be the bedrock going  
22 forward. One, because you want to have that level of  
23 clarity. There was some disruption of the marketplace  
24 when the bulletin was withdrawn. And I can't speak  
25 for other carriers, but I have to believe there'll be

1 a tonic effect when a new bulletin is issued that as  
2 closely as possible follows the guidelines of 11-02.  
3 Having said that, nothing prevents both sides from  
4 innovating and working together. And if indeed you  
5 form a working group as was formed in 2010 -- which I  
6 certainly hope you do -- then you may want to consider  
7 some type of a continuous working group as this issue  
8 keeps developing. Because the very nature of the  
9 insurance product -- you know, we're not a commodity.  
10 We're an evolving concept with differing coverages,  
11 different data collection abilities, and a changing  
12 consumer. So for all those reasons, the bulletin  
13 should provide the right guidance and stability so  
14 ratemaking can take place fairly, but also allow for  
15 organic conversations going forward.

16 MR. HUFF: And just to clarify for folks  
17 that may not be as familiar with it, the bulletin  
18 11-02 did have an expiration date. And by the time it  
19 had expired and the Department took up the issue, we  
20 then had an adverse court ruling on bulletin  
21 authority. We worked very closely with the industry  
22 and other stakeholders to reinstate that authority.  
23 We appreciate the support of the industry in that  
24 regard. And so we have legislative clarity, statutory  
25 clarity now on bulletin authority. So we're

1 appreciative of that authority, and want to make sure  
2 we use it properly as we go forward. Although the  
3 purpose of this hearing is to determine whether actual  
4 rules should be established to embed even further the  
5 ability of rate stabilization. Other questions of the  
6 panel? Julie?

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

12 MR. ESTES: I think you do want to do that,  
13 because when we look at our resets, we look at it in a  
14 four-year period. You know, we recognize that we need  
15 to get the customer there within four years. And so I  
16 designed my table so that, you know, I look at the  
17 maximum increase, the maximum decrease, I make certain  
18 that I'm getting there at least 25 percent, you know,  
19 per year. So -- so I think that you do want to  
20 continue to have that period. The reset just allows  
21 us to go in, look at our book in light of the new rate  
22 that we've taken, and establish what the capped and  
23 uncapped value is. And certainly we understand, you  
24 know, bulletin 11-02 said specifically it needed to be  
25 rate neutral or it needed to be a decrease. You know,

1 and let me -- I mean, it's -- capping is a very  
2 difficult thing. I think that when I think about our  
3 folks, it's the most difficult thing that we do. And  
4 the math that we have to do in order to determine, you  
5 know, capped versus uncapped to make it work, you  
6 know, it's -- it's -- it's quite a process. So we  
7 appreciate the flexibility.

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

24 MS. NELSON: You're still not rid of me.  
25 You bring up a point that makes me think, and that's

1 very dangerous. But talked a little bit about the  
2 bulletin 11-02 and how it put the overall sort of  
3 guidance in there that any rate capping had to be  
4 neutral or result in an overall decrease. It seems --  
5 well, I would say our previous actuary believed that  
6 that instilled some underwriting discipline, to make  
7 sure that there was -- you know, obviously we don't  
8 get into a situation where you have some insureds  
9 possibly subsidizing other insureds, cross  
10 optimization was somewhat limited, and again, just for  
11 good underwriting discipline. Any thoughts on that?

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

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

7 MS. NELSON: Good answer.

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

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

24 MR. ESTES: No, I don't. I think that  
25 it's -- it's a common thing that we're involved in,

1 you know, market conduct currently. We're asked to  
2 provide the tools to -- to let you replicate, you  
3 know, the rate, see how we got to the rate. So it's a  
4 normal course of business.

5 MR. HUFF: Thank you.

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

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

24 MR. ESTES: Thank you.

25 MR. BURHAN: Thank you very much.

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

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

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

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

16           MR. LANE: I think our comments will be a  
17 little briefer than the previous ones. We basically  
18 want to stand on the comments that we provided in  
19 writing. We'll add a little bit more to that. But  
20 the bottom line is that the -- the parameters that  
21 were put around premium stabilization in the previous  
22 bulletin were ones that we were very comfortable with.  
23 We -- we believe that with the proper definition, that  
24 premium stabilization practices would certainly vary  
25 from company to company. There is not a uniform way

1 that companies use these -- these practices. And  
2 certainly I think State Farm does it differently than  
3 probably a lot of maybe other carriers. But we  
4 believe that premium stabilization factors are a  
5 benefit to consumers, that they are not in violation  
6 of the -- of the ratings -- the ratings statutes in  
7 Missouri, and that -- that they are -- are beneficial  
8 to consumers, in that they allow consumers to -- to  
9 move to the proper rates within a reasonable period of  
10 time. We're very comfortable with the guidelines that  
11 were established and created in the bulletin. And  
12 we'll be happy to -- you know, to continue to work  
13 with the Department if -- if we go forward with this  
14 and put those -- those or some other guidelines in  
15 place. You've asked a little bit of questions about  
16 disclosure. I mean, obviously consumers get  
17 disclosure for -- for their auto or homeowner rates in  
18 advance of the renewal of the policy. I'm not really  
19 sure how explaining to a consumer exactly what the --  
20 you know, the potential future rate is is going to be  
21 necessarily beneficial to the consumer. In -- in my  
22 estimation, that -- that number that I'm required to  
23 pay on that renewal bill is the most important one to  
24 me. In the very small or few instances where someone  
25 may have a premium or rate capping process that they

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

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

19 MS. NELSON: One question again, just on  
20 the time limitation. I know that your comment said  
21 that you all were -- would prefer something that's  
22 more open-ended. But obviously you've heard the  
23 conversations that we've had this morning. And the  
24 one thing that I threw out to Liberty Mutual was the  
25 concept that we might have two different time

1 limitations, depending upon what it actually is  
2 involving, if it's a transition perhaps because of  
3 logistics, you know, perhaps a longer time period.  
4 Are you all comfortable with the four-year time  
5 period? And if so, is -- is that, you know, enough?  
6 Will we need to contemplate some other sort of process  
7 by which additional time could be granted at the  
8 discretion of the director? Just kind of thinking  
9 conceptually and trying to see what your all's  
10 thoughts are.

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

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

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

1 we do an exam? I didn't mean to throw this to the  
2 actuary.

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

17 MR. HUFF: Jim Mealer?

18 MR. MEALER: Regarding disclosure, you  
19 thought it wouldn't be all that effective for rate  
20 capping. How -- and I think in Louisiana and  
21 Washington, where there were material changes and  
22 exposure or risk, they basically said that shouldn't  
23 be part of the rate capping process. What if -- or  
24 let me rephrase that. So for material changes in  
25 those individual circumstances that would impact their

1 rate, should that be disclosed? Not just the overall  
2 rate capping process, but if there's material changes  
3 to the individual's exposure or risk, should that be  
4 disclosed to the individual what those changes are?

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

22 MS. POPEJOY: So I guess to add on to what  
23 Chuck said, and say it a little differently, if I'm  
24 understanding correctly your question, a customer is  
25 going to know that there's been a change in their

1 exposure because they're going to be the one that  
2 initiates it. Either they add a new driver, they add  
3 a huge addition onto their home which changes the  
4 amount of insurance they may want to purchase on that  
5 home, or a variety of other things that, in my mind,  
6 most instances, the customer has initiated themselves.

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

20 MS. POPEJOY: I think you have to know what  
21 similarly situated means. And there is a variety of  
22 things that could come into play. And in my opinion,  
23 it's probably very rare that two customers are  
24 identical. Either they've been insured with the  
25 company for various lengths of time, or one is an

1 existing customer and one is new business. So  
2 similarly situated is a pretty vague, kind of  
3 open-ended phrase that I think needs more discussion  
4 or more definition before we would have a specific  
5 answer to that question.

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

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

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

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

25 MR. HUFF: Thank you.

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

8 MS. POPEJOY: That would be one example.

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

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

19 MS. NELSON: Any other states?

20 MR. HUFF: Good morning.

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

1 Farmers Insurance did provide feedback to the issues  
2 that were raised. And much of that has been covered  
3 already. What I did want to touch upon, though, was  
4 just a couple of points. And one was the appropriate  
5 duration of premium stabilization practices. Because  
6 that one seems to have come up. So I just wanted to  
7 relay Farmers' comments in that regard. And we  
8 believe there should be no pre-prescribed limitations  
9 on premium stabilization practices due to the wide  
10 range of situations. It would be preferable to have  
11 the Department review premium stabilization practices  
12 on a case-by-case basis. However, if the Department  
13 deems it necessary to specify a number of permissible  
14 renewals, then modifications of existing premium  
15 stabilization plans with subsequent rate revisions  
16 should be permitted to perpetually reset the premium  
17 stabilization plans. The only other issue that I  
18 wanted to restate Farmers' feedback on is whether  
19 there should be any notice requirements to  
20 policyholders regarding future premium changes  
21 resulting from premium stabilization. And Farmers'  
22 response was that providing notices to policyholders  
23 regarding future premium changes resulting from  
24 premium stabilization would be of minimal value to the  
25 insured, but could potentially mislead the insured

1 when there are changes to the insured's risk profile,  
2 the insurer's base rates, rating factors, or premium  
3 stabilization plan, or any combination of the  
4 aforementioned items. And those -- those seem to be  
5 the two areas that have been coming up, so I wanted to  
6 share that feedback on those two issues alone.

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

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

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

21 MR. JOHNSTON: Yes.

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

24 MR. JOHNSTON: Thank you. Thank you,  
25 Director Huff. Ah, technology. Yes. Busily using my

1 thumbs to get an answer to your question about the  
2 state of -- as we people in St. Louis say --  
3 Washington. I have an answer -- at least kind of a --  
4 90 percent of an answer. And I think the first thing  
5 is compared to what. I think if you were to ask  
6 carriers that write in Washington, they did not see a  
7 need for the bulletin. This was something that was  
8 brought to them that they didn't, again, think was  
9 needed. But once the process began, and there was  
10 dialogue, the regulation was improved over the process  
11 or -- and made better. And as my counterpart said,  
12 they're now handling it. I think that's like in many  
13 regulatory environments, whatever the environment is,  
14 people will adjust to it. Whether it's a good  
15 environment or bad environment probably depends on  
16 your philosophy. But it was something that people I  
17 don't think thought was needed, but it was approved.  
18 And the state of Washington does have an auto  
19 insurance market going on right now.

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

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

25 MR. HUFF: Okay. That reminds me that

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

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

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Sarah Pokorski, CCR 745

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