Travelers' Comments on Proposed Premium Stabilization Rules

- *Definition of premium stabilization*. We propose the following definition: "Premium stabilization is the practice intended to moderate a significant premium change on a segment or block of business. Premium stabilization is a temporary or limited duration practice and does not replace traditional underwriting and rating methodologies, which are based on actuarial standards and practices.

- *The extent to which premium stabilization practices comply with Missouri rating laws*. Premium stabilization practices comply with Missouri rating laws because they are designed to transition rates over a reasonable period of time.

- *The circumstances under which premium stabilization practices are appropriate or not, and the lines of insurance in which it should be permitted*. We believe that premium stabilization practices are appropriate in most if not all circumstances and lines of insurance.

- *The appropriate duration of premium stabilization practices*. We believe that the maximum duration for premium stabilization practices should be a reasonable period of time standard rather than a specific number of years duration. The specific duration is going to vary based on the specific mechanism, for example renewal rate capping and transitional rate capping.

- *Limitations – particularly percentage limitations - on the practice of premium stabilization.* The original bulletin had sensible limitations and we support the continuation of those limitations.

    - The original bulletin did <u>not</u> include percentage limitations on premium stabilization, and we agree with that approach. The appropriate rate cap percentages depend heavily on the extent to which the new and existing rates differ.

    - However, the original bulletin did require that "<u>the proposed premium stabilization plan, as filed, should be rate neutral or result in a rate decrease</u>". This makes sense, as rate stabilization plans should not be constructed so as to bias rate changes upwards, such as by limiting rate decreases more than rate increases.

    - The original bulletin required that the proposed premium stabilization plan should be <u>unambiguous and applied uniformly and fairly to all renewal business</u>. This too makes sense.

    - The original bulletin also required that the convergence with filed rates should be <u>smooth</u>. This also makes sense, and maximizes the benefit to both insurers and their policyholders.

- *The extent to which different consideration should be given to the two types of premium stabilization practices described herein – rate capping versus transition rate capping*. Although we believe that strict percentage limitations are not ideal, if these are in fact included in the final rules, higher rate caps and possibly a longer rate capping period should be allowed in transition rate capping. Rate differences between two separate companies (not within the same insurer group) could be far more significant than between rate plan iterations of one company.

- *The extent to which… transition rate capping should be allowed*. We believe transition rate capping is particularly helpful to both policyholders and insurers. This is because, as mentioned above, rate plans developed independently by different insurers are very likely to produce significantly disparate rates +/-50% or more is not uncommon. Without transition rate capping, an insurer could essentially be sending a "Welcome to your new Insurance company – Here's your +63% rate increase" letter to some of its newly acquired policyholders.

- *Whether multiple premium stabilization practices should be permitted to be applied (simultaneously or subsequently) within the same book of business.* Multiple stabilization practices should be permitted both simultaneously and subsequently. The original bulletin allowed insurers to modify existing premium stabilization plans in subsequent revisions, which, according to the bulletin itself – "allows for perpetual reset". Simultaneous practices are necessary to address the impact that specific changes may have on a different elements of a rate or class. Insurers when using multiple stabilization practices should be clear and transparent in their filings as to the reasoning.

- *Filing requirements and supporting documentation for the transparent disclosure of premium stabilization practices.*

    - The original bulletin required "disclosure of projected premiums, percentage changes, dollar changes, and number of policies impacted for each future renewal period. To prepare this disclosure, the insurer shall make the assumption that its current book of business is fully retained and renewed into the future, until the capping process ends." It also prescribed tables of the rate stabilization impacts on capped policies, uncapped policies and total policies. We believe all these disclosure requirements are sensible, relevant and not onerous to produce.

    - The original bulletin required that "All standard filing transmittal forms shall show the overall percentage and dollar rate impacts on an <u>uncapped</u> basis." We think this makes sense – it avoids confusion as to exactly what rate changes are being proposed, and also ensures that the Department is notified of the *ultimate* rate increases that policyholders will see when the rate capping is completed.

    - The original bulletin required that "when a rate-capping rule has lowered historical premiums, the insurer's actuary shall attest that the actuarial indication <u>does not redundantly measure rate need</u>. The actuarial method to adjust premium to current rate levels shall first and explicitly adjust premium to remove the effects of rate-capping, and then adjust the uncapped premiums to current levels." We believe this is actuarially correct and appropriate.

- *The extent to which information may be trade secret or proprietary.* Premium stabilization plans should be transparent and not overly complex. We do not currently see a need to allow these plans to be trade secrets or proprietary; however, there may be in the future as innovation is encouraged in the industry.

- *Whether there should be any notice requirements to policyholders regarding future premium changes resulting from premium stabilization.* Although a notice requirement may seem appealing for policyholders, such a notice would potentially cause confusion. Highly segmented rating plans have many elements that change due to exposure, new losses, new violations and the aging of variable to name a few. This means that it is not possible to meaningfully disclose what a policyholder's premium might be. Providing information that will not accurately reflect future premium, will not only cause consumer confusion but will likely result in consumer complaints. Therefore, a mandatory notice requirement is problematic and should be avoided.