



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

**INSURANCE BULLETIN 11-02**

**Personal lines premium stabilization of renewal policies  
Issued Jan. 7, 2011**

**To:** All companies licensed to write property and casualty insurance in Missouri  
**From:** John M. Huff, Director  
**Re:** Personal lines premium stabilization of renewal policies

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) is issuing this no-action bulletin to insure carriers acting within certain guidelines with respect to personal lines premium stabilization plans. If the insurance industry complies with the guidelines set forth in this no-action bulletin, the DIFP will not take enforcement action against the entity for rating plan violations.

Carriers use premium stabilization plans within their rating plans to moderate the transition between renewals for existing customers. Premium stabilization plans balance new actuarial information and the existing customer's renewal premium expectation. This no-action bulletin provides operating guidelines to address the capping of individual rate changes at renewal.

Scope: This no-action bulletin applies to personal lines insurance rate filings that include rate limitations on renewal business. The capping of actuarial selections is not within the scope of this bulletin. For the purposes of this bulletin, personal lines insurance includes private passenger auto (including motorcycle) and non-commercial dwelling (including dwelling fire and allied lines, homeowners, mobile homeowners, condo, renters, and earthquake). "Renewal business" of a company means an insured of the company that was also insured by the company for the same kind of coverage immediately prior to the effective date of the insured's coverage. The DIFP will individually review rate limitations not included in the scope of this bulletin.

"Premium stabilization" means a rule in a rating/underwriting plan that reduces premium changes of renewal business on an exposure-by-exposure or a policy-by-policy basis where such premium changes are caused by changes in the rating or risk classification of the exposure or changes in the carrier's rating plan, or both.

The DIFP will not take enforcement action against insurers utilizing rate capping to stabilize personal lines insurance rates charged to renewal business if the stabilization plan is implemented under the following guidelines:

- 1) The proposed premium stabilization plan must be unambiguous and applied uniformly and fairly to all renewal business.
- 2) The proposed premium stabilization plan, as filed, should be rate neutral or result in a rate decrease.
- 3) The proposed premium stabilization plan, as filed, should result in individual policy premiums converging with their filed premium within four years (four renewal cycles for annual policies or eight renewal cycles for semi-annual policies). The convergence with the filed rates should be accomplished smoothly.
- 4) The insurer shall provide a rule in its rate manual detailing the application of rate-capping. This rule shall be clear and shall specify:
  - a. The caps, if applicable;
  - b. The formula or methodology for the rate-capping calculation; and
  - c. The duration of the rate-capping procedure, e.g., three renewal cycles.
- 5) Carriers may modify existing premium stabilization plans with subsequent rate revisions, and such modifications may include new premium stabilization plans that result in individual policy premiums reaching their filed premium within four years of the filing of the modification. Any subsequent change to the rate-capping rule would be made by filing with the DIFP. This provision will basically allow for a practical reset. The first reset on an existing plan will replace the existing plan; carriers cannot have more than one plan active at the same time.
- 6) The insurer shall disclose to the DIFP the impact of the proposed capped rate changes over future renewal periods until the capping process ends by submitting the Documentation of Renewal Business Rate Limitation Plan (attached) in its rate filing.
- 7) The disclosure shall include projections of 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.
- 8) All standard filing transmittal forms shall show the overall percentage and dollar rate impacts on an **uncapped** basis. This applies to any and all pre-determined state-mandated forms required to be completed by the insurer and transmitted with the filing.
- 9) In a rate filing, when a rate-capping rule has lowered historical premiums, the insurer's actuary shall attest that the actuarial indication does not redundantly measure rate need. 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.

**This no-action bulletin expires on December 31, 2012.**

EXAMPLE:

Suppose a company wishes to impose a cap of +10% per semi-annum and currently has two semiannual policies:

<u>Policy #</u>	<u>Premium</u>		<u>%Change</u>		<u>\$ Change</u>
1	\$1,000	+	5%	+	\$50
2	\$2,000	+	50%	+	\$1,000
Total	\$3,000	+	35%	+	\$1,050

Then the insurer shall show the following three tables (or Table 3 at a minimum) in its filing:

**UNCAPPED POLICIES (Table 1)**

(A) <u>Semiannual Renewal Period</u>	(B) <u>Premium Subject to Change</u>	(C) <u>% Change</u>	(D) <u>\$ Change</u>	(E) <u>Impacted Number of Policies</u>
1	1,000	+5.0%	+50	1
2	1,050	+0.0%	+0	0
3	1,050	+0.0%	+0	0
4	1,050	+0.0%	+0	0
5	1,050	+0.0%	+0	0
6	1,050	+0.0%	+0	0
All periods	1,000	+5.0%	+50	1

Rescinded and Inoperative

**CAPPED POLICIES (Table 2)**

(A) <u>Semiannual Renewal Period</u>	(B) <u>Premium Subject to Change</u>	(C) <u>% Change</u>	(D) <u>\$ Change</u>	(E) <u>Impacted Number of Policies</u>
1	2,000	+10.0%	+ 200	1
2	2,200	+10.0%	+ 220	1
3	2,420	+10.0%	+ 242	1
4	2,662	+10.0%	+ 266	1
5	2,928	+ 2.5%	+ 72	1
6	3,000	+ 0.0%	+ 0	0
All Periods	2,000	+50.0%	+1,000	1

**UNCAPPED + CAPPED POLICIES (Table 3)**

(A) Semiannual Renewal <u>Period</u>	(B) Premium Subject to <u>Change % Change</u>	(C) <u>% Change</u>	(D) <u>\$ Change</u>	(E) Impacted Number of <u>Policies</u>
1	3,000	+ 8.3%	+ 250	2
2	3,250	+ 6.8%	+ 220	1
3	3,470	+ 7.0%	+ 242	1
4	3,712	+ 7.2%	+ 266	1
5	3,978	+ 1.8%	+ 72	1
6	4,050	+ 0.0%	+ 0	0
All Periods	3,000	+35.0%	+1,050	2

## Rescinded and Inoperative

NOTES

(1) (C) = (D) / (B)

(2) For All Periods rows:

(B) = (B) for Semiannual Renewal Period 1

(C) = Multiplicative combination of (C) for all Semiannual Renewal Periods  
(e.g., in Table 2, +50.0% = 1.100 x 1.100 x 1.100 x 1.100 x 1.025 - 1.000)

(D) = Sum of (D) for all Semiannual Renewal Periods

(E) = (E) for Semiannual Renewal Period 1

(3) Table 3 = Table 1 + Table 2, except that note (1) above applies

**Documentation of Renewal Business Rate Limitation Plan**

1. Identify the following:

- a. Company Name: \_\_\_\_\_
- b. Company NAIC code: \_\_\_\_\_
- c. Filing ID: \_\_\_\_\_
- d. Date of Filing: \_\_\_\_\_
- e. Type of Coverage: \_\_\_\_\_
- f. If this is a modification, provide the previous rate limitation plan
- g. modification effective dates and Filing ID (oldest = Plan A to newest, up to 4 modifications):
  - Plan A. \_\_\_\_\_
  - Plan B. \_\_\_\_\_
  - Plan C. \_\_\_\_\_
  - Plan D. \_\_\_\_\_
- h. Contact person: \_\_\_\_\_
- i. Actuary responsible for this Documentation: \_\_\_\_\_

**Rescinded and Inoperative**

2. Provide the proposed rate limitation rule in the rate manual detailing the application of the rate limitation plan. This rule shall be clear and shall specify:

- a. The formula or methodology for the rate-capping calculation;
- b. The caps, if applicable; and
- c. The duration of the rate-capping procedure, e.g., two renewal cycles.

3. Previous rate limitation plan – applicable only if a rate limitation plan is currently in effect.

Please provide the following information relating to rates effective at time of filing for the type of business. Please provide supporting documentation explaining the data, methods and assumptions used. If this information is not available, provide suitable substitute information.

Effective date of currently effective rates: \_\_\_\_\_

(1)	(2)	(3)	(4)	(5)	(6)	(7)=(6)/(5) - 1
Row Letter	Period		Written Exposures	Written Premium in Period Under Rates Without Rate Limitation	Written Premium in Period Under Rates Subject to Limitation	Percent Impact
	From	To				
Plan A.						
Plan B.						
Plan C.						
Plan D.						

Note: the periods listed in rows A, B, C and D should span the period that the plan has been in effect.

4. Please provide the following information relating to proposed rates in Missouri for the type of business. Please provide supporting documentation explaining the data, methods and assumptions used. If this information is not available, provide suitable substitute information.

Estimated Impact on Policies Written During the Projection Period					
Projection Period: From Policy Effective Date to One Year Later					
	(1)	(2)	(3)	(4)	(5)
	Number of Exposures	Average Written Premium in Projection Period			
		Under Present Filed Rates Without Limitation	Under Proposed Filed Rates Without Limitation	Under Present Rates Subject to Present Limitation	Under Proposed Rates Subject to Proposed Limitation
A. New Business After Filing Effective Date.*					
B. Renewal Business After Filing Effective Date					
C. Total. (2) to (5) are Expo Weighted Averages					

Rescinded and Inoperative

\*Note for Row A new business, (4) = (2) and (5) = (3). If not, please explain.

	(6) <u>New</u>	(7) <u>Renewal</u>	(8) <u>Total</u>
D. Change in Premium Not Subject to Limitation (3) / (2) -1			
E. Impact of Present Rate Limitation (4) / (2) -1	N/A		N/A
F. Impact of Proposed Rate Limitation (5) / (3) -1	N/A		N/A
G. Change in Actual Premium (5) / (4) -1			