



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

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

INSURANCE BULLETIN 16-05

Rate stability rules for personal lines property and casualty policies

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The following Bulletin is issued by the Missouri Department of Insurance, Financial Institutions and Professional Registration (“Department”) to inform and educate the reader on the specified issue. It does not have the force and effect of law, is not an evaluation of any specific facts or circumstances, and is not binding on the Department. See section 374.015, RSMo.

To: All insurers writing personal lines of property and casualty insurance in Missouri

From: John M. Huff, Director

Re: Rate stability rules in personal lines of property and casualty insurance policies

This Bulletin is issued to provide information regarding rate stability rules, applicable only to personal lines of property and casualty insurance. By issuing this Bulletin, the Department is notifying insurers that it will not take enforcement action against an insurer, provided the insurer acts within or meets the guidelines set forth below.

Insurers use rate stability rules to moderate rate and premium fluctuations that may occur due to the acquisition of new business or changes in rating plans for existing policyholders. Rate stability rules are also referred to as “transition rules,” “rate stability factors” or “rate-capping rules.”

Rate stability rules, as referenced in this Bulletin, do not include the practice of price optimization. Insurers with questions about price optimization should review [Bulletin 16-02](#).

The Department will not take enforcement action against an insurer utilizing rate stability rules to modify rates or premiums for personal lines of property and casualty insurance so long as the rate stability rules are implemented within or meet the following guidelines:

- 1) Rate stability rules are applied in the following limited circumstances:
 - a) When an insurer makes revisions to its own rating plan;
 - b) When an insurer obtains new business through acquisition or planned acquisition of a book of business from an unaffiliated insurer; or
 - c) When an insurer transfers or receives new business from an affiliated insurer.

Within the above limited circumstances, the Department does not include the use of rate stability rules to extend a previously filed rate stability rule or in lieu of what would otherwise be separate filings of base rate changes required under Missouri law. The Department also does not include the use of rate stability rules to moderate premium changes resulting from changes in coverage, exposure, or classification; or normal variations in rating due to changes in policyholder characteristics over time.

- 2) An insurer's rate stability rules are only applied to policyholders who would otherwise experience a premium change of more than ten percent for an annual policy, or five percent for a six-month policy.
- 3) The insurer's rate stability rules are unambiguous and applied uniformly to all applicable business.
- 4) The insurer's rate stability rules are actuarially justified and, in the aggregate, be rate neutral or result in an overall rate decrease.
- 5) All rate stability rules and documentation of the use of such rules by insurers are filed with the Department, along with the rates to which the rate stability rules will be applied.
- 6) The insurer publicly discloses in the filing:
 - a) The use of a rate stability rule; and
 - b) The circumstances, as outlined in this Bulletin, that explain the reasons for the insurer's use of a rate stability rule; and
 - c) The date or number of renewals after which the rate stability rule will no longer apply, subject to the maximum duration specified in this Bulletin.
- 7) The insurer provides the Department the following information in its filing:
 - a) Each rate stability rule must specify the class or classes of risks to which it applies; and
 - b) The insurer must detail how each rate stability rule is applied and must describe the formula or methodology for the calculation; and
 - c) The insurer must document the overall percentage and dollar rate impact on an ultimate basis.

- 8) Rate stability rules are limited in duration as follows:
- a) When an insurer makes revisions to its own rating plan, a rate stability rule is applied for a maximum of three (3) years, regardless of the number of renewals; or
 - b) When an insurer acquires business from either an affiliated or unaffiliated insurer, a rate stability rule is applied for a maximum of five (5) years, regardless of the number of renewals.
- 9) The insurer agrees to maintain sufficient information, and make such information available upon request to the Department, so that the Department may accurately reproduce premiums charged to policyholders. Such information shall include, but not be limited to, rates and premiums charged for any prior terms, rates and premiums for the current term prior to application of a rate stability rule, and the specific factors or modifications applied to the current term's rates and premiums. To document this agreement, the filing containing the rate stability rule shall include an affirmative statement from the insurer that it will maintain sufficient information as specified herein.

Any questions or comments regarding this Bulletin should be directed to the Market Regulation Division at 573-751-3365.

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