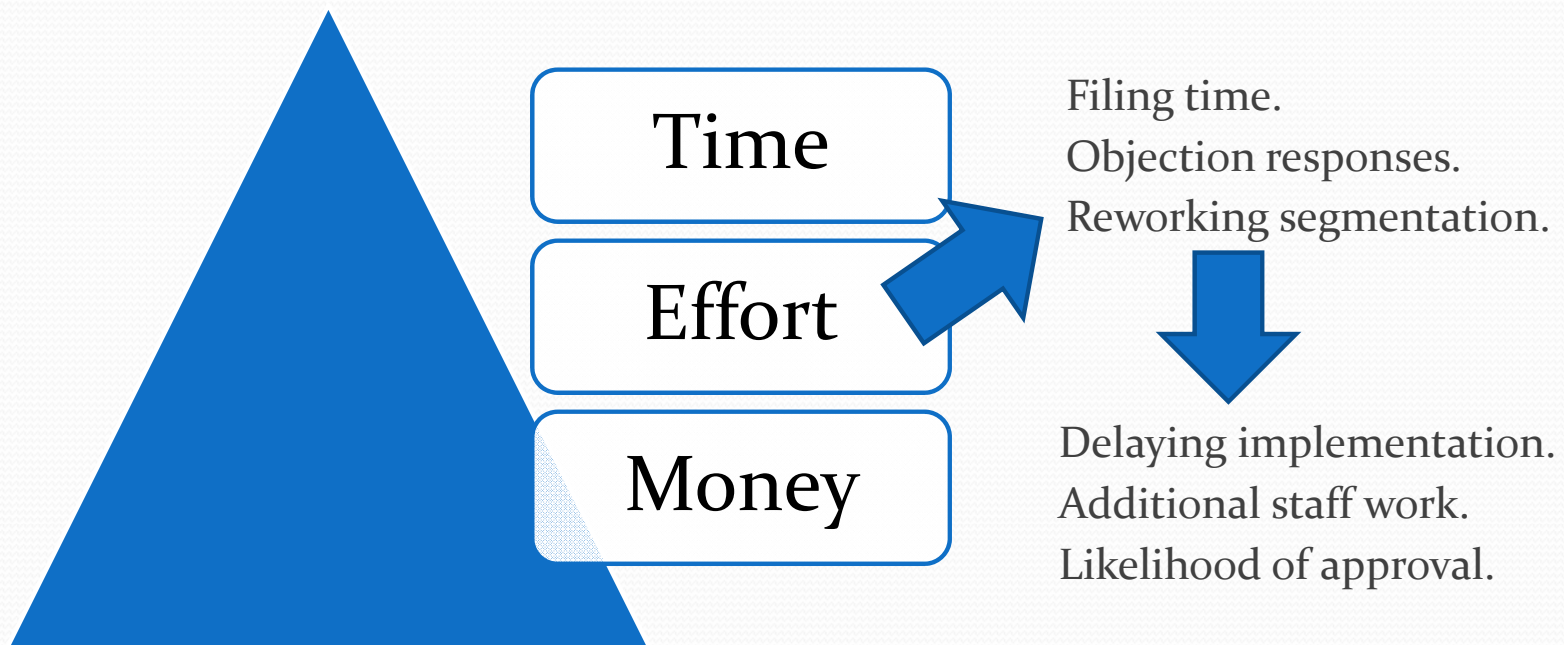


What makes a good California rate filing?

Rachel Hemphill, PhD, FCAS, MAAA
California Department of Insurance
SCCAC Spring Meeting
May 28th, 2015

Why do you care?



Communicate

A rate filing is communication, not satisfying a checklist.

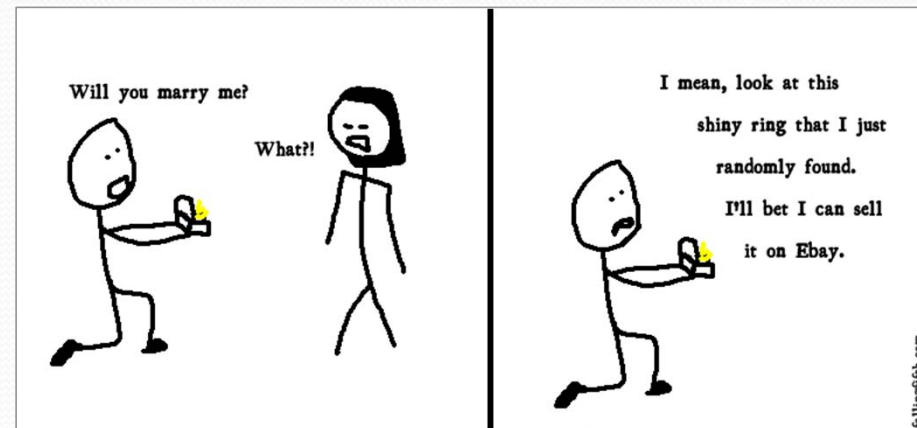
1. Keep your audience in mind.
2. We do not have your Company's institutional knowledge regarding your data, rating structure, terminology, marketing and underwriting plans, typical analyses, etc.
3. If you had a new head of your group and you needed to implement this change in just a few months, would the filing be enough to convince him/her?



Clear Communication

Start with a Clear Proposal.

1. List all changes up front.
2. Be specific about the proposal.
3. List the rate impact of each change.
4. State where support is provided for each change (exhibits and memorandum).
5. Provide reconciliation of proposed rate changes and proposed rates in rate manual.



Clear Communication

Then, Provide Clear Support.

1. Narrative should accompany all tables, graphs, charts, etc.
2. Outline flow of individual exhibits.

(column headers or footnotes, e.g. (4) = (1)/sum(1) * (3)).

3. Use clear labels (AY/CY, written/earned, on-level).
4. Avoid acronyms.
5. Remember, ASOP 41.

Finally, Respond Clearly to Objections.

1. Address the question asked.
(Even if you disagree with the premise.)
2. Don't duplicate exhibit names/numbers.



Good Communication

Complete



Application

- Includes any necessary variances
- PDF & Excel Format



Template

- PDF & Excel Format



Exhibits

- Exhibit 8: both frequency and both severity bases
- Support for all segmentation changes
- PDF & Excel Format

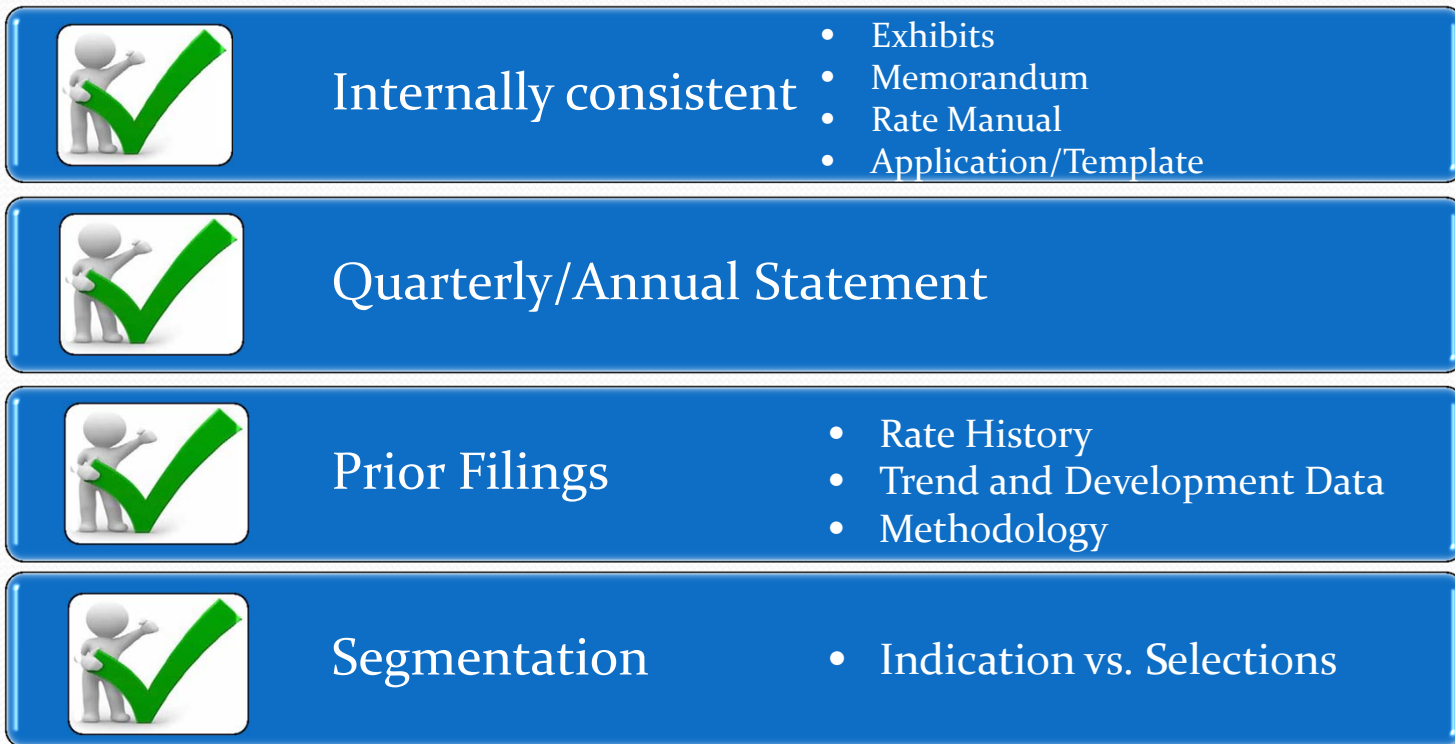


Memorandum



Good Communication

Consistent
(no double talk!)



Actuarial Communication

1. Theoretically Sound Methodology
 - E.g., Credibility.
2. Judgment-based Selections
 - E.g., New variable with no company data.
 - Should be justified and reasonable.
3. Most Actuarially Sound
 - Specific to this filing.
 - Being within a confidence interval doesn't necessarily mean acceptable.

Loose Parts by Dave Blazek



Of all the actuaries at the firm, none could match the zeal of Earnest T. Cromwell.

Actuarial Topics: Premium Trend

Without Excel and specific narrative, what does a regulator have to review?
Columns of numbers and some summary statistics.

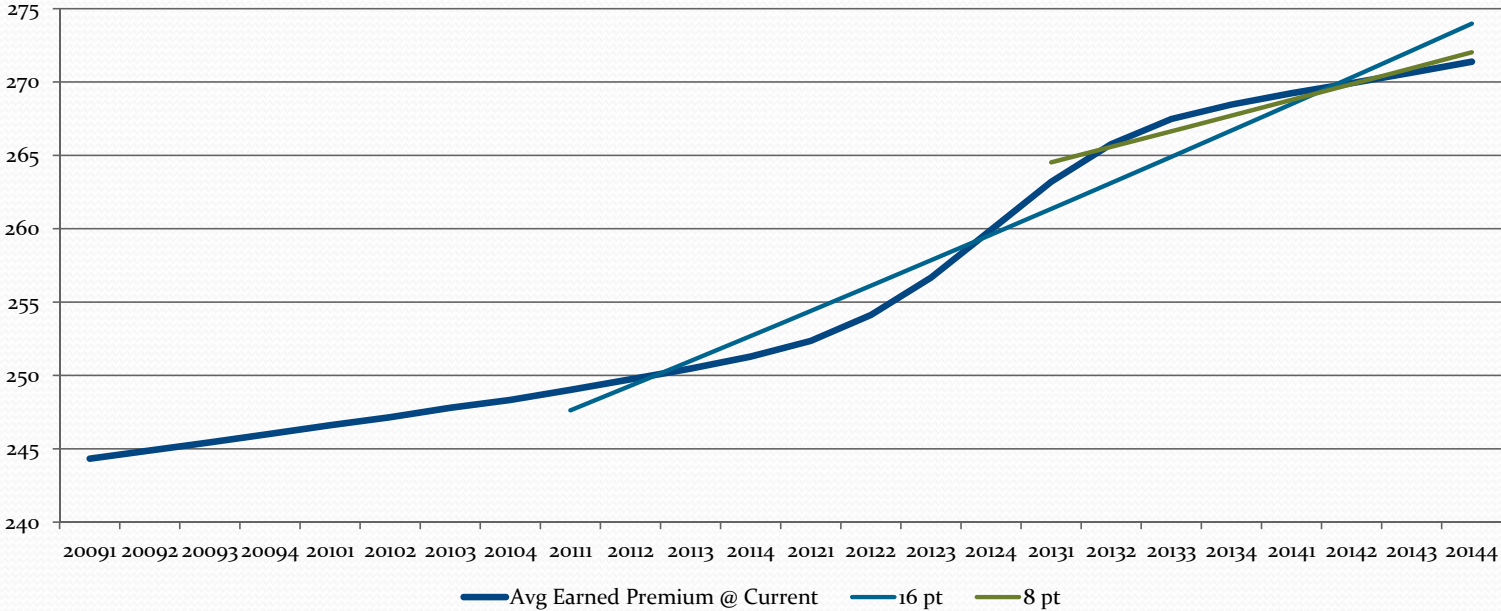


	Rolling 4-Quarter	
	Annual Trend	R ²
8 pt	1.62%	0.913
12 pt	2.87%	0.921
16 pt	2.79%	0.956
20 pt	2.44%	0.948
24 pt	2.16%	0.938

Actuarial Topics: Premium Trend

Let's look at the graph.

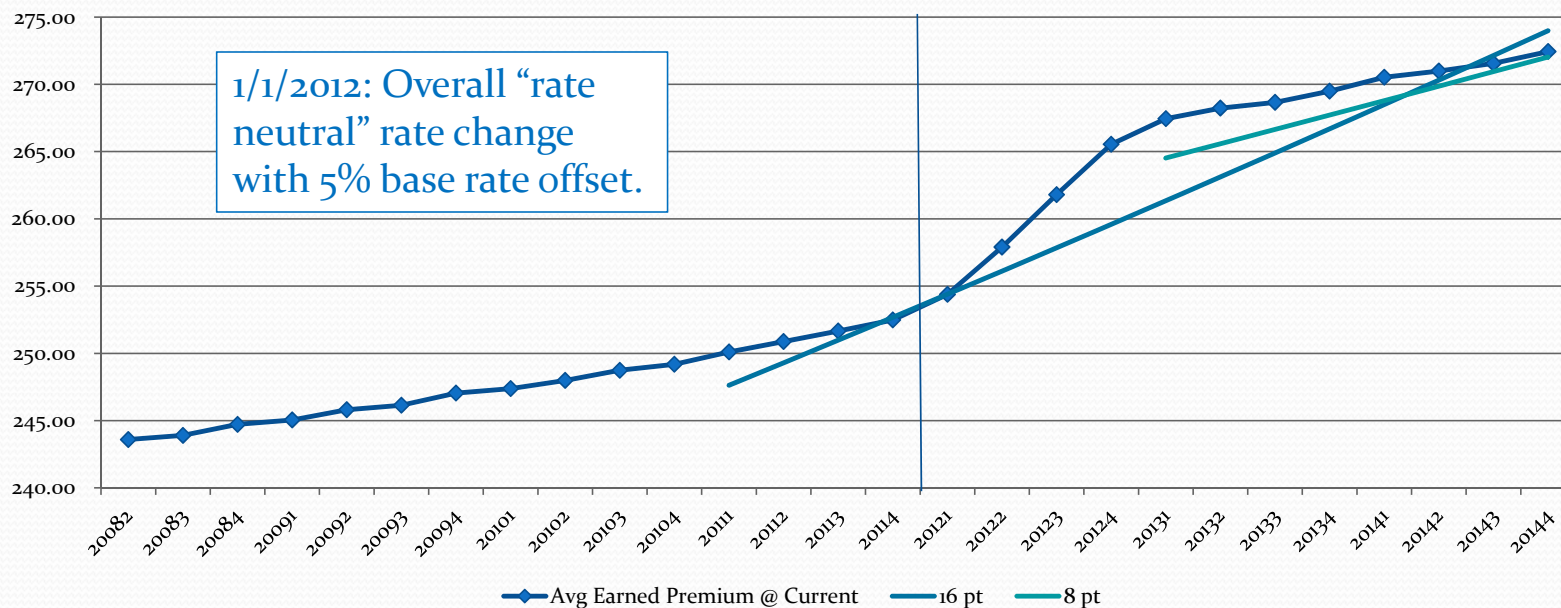
California Rolling 4-Qtr Premium Trend



Actuarial Topics: Premium Trend

And what if we look deeper?

California Quarterly Premium Trend



Rolling 4-Quarter	Annual Trend
8 pt	1.62%
12 pt	2.87%
16 pt	2.79%
20 pt	2.44%
24 pt	2.16%

Actuarial Topics: Severity Trend

Memorandum describes “recent deterioration in severity trends.”

	Paid Severity	
	Annual Trend	R ²
8 pt	9.67%	0.686
12 pt	9.05%	0.825
16 pt	4.66%	0.532
20 pt	3.10%	0.445
24 pt	1.81%	0.272

Responsiveness

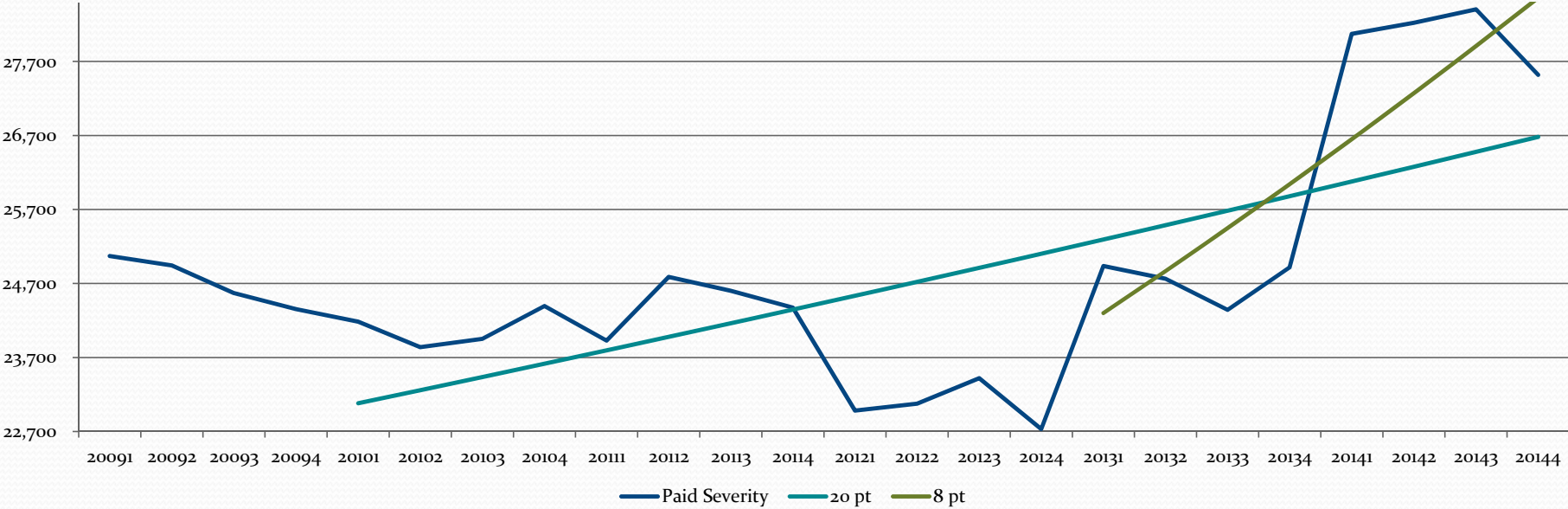
Stability



Actuarial Topics: Severity Trend

Again, let's check out a graph.

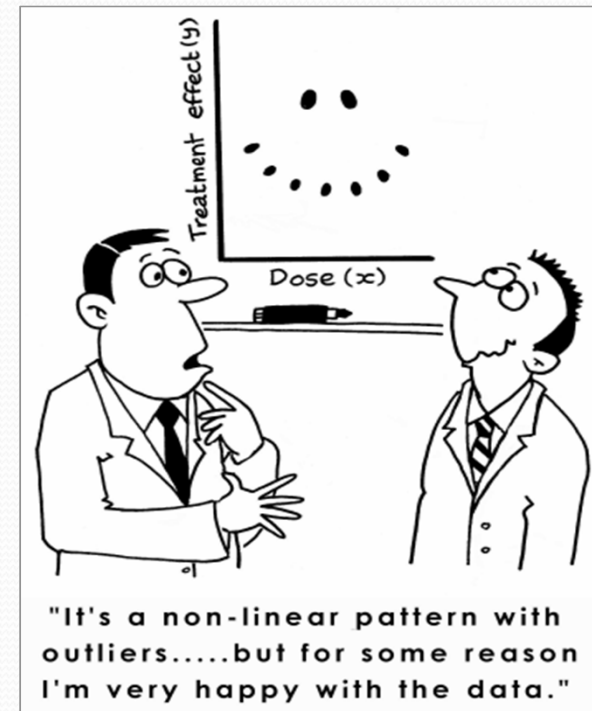
California Rolling 4-Qtr Paid Severity Trend



Actuarial Topics: Severity Trend

And what if we look deeper?

California Quarterly Paid Severity



Actuarial Topics: Loss Development

A company selects Incurred development, as they say that it is more stable and incorporates additional information.

Accident Year Ending	Paid to Date	Age-Ult	Ultimate	Inc'd to Date	Age-Ult	Ultimate
20024	112,215	1.000	112,215	112,215	1.000	112,215
20034	82,509	1.000	82,509	82,509	1.000	82,509
20044	72,377	1.000	72,377	72,377	1.000	72,377
20054	75,851	1.000	75,851	75,851	1.000	75,851
20064	84,078	1.000	84,078	84,078	1.000	84,078
20074	99,628	1.000	99,628	99,628	1.000	99,628
20084	115,679	1.000	115,679	115,679	1.000	115,679
20094	115,176	1.000	115,176	115,176	1.000	115,176
20104	103,164	1.000	103,164	103,164	1.000	103,164
20114	103,192	1.010	104,223	103,192	1.010	104,223
20124	90,815	1.212	110,068	108,978	1.040	113,370
20134	49,475	2.059	101,868	100,928	1.122	113,290
20144	20,857	4.530	94,481	92,818	1.271	117,939

Ultimate incurred losses are 28% higher than ultimate paid. **Why?**

Actuarial Topics: Loss Development

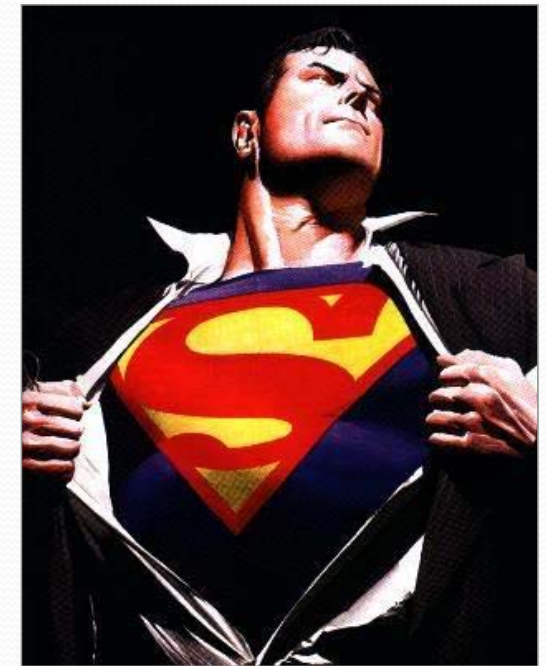
Paid Age to Age Factors

	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>
20024	2.169	1.668	1.224	0.989	1.000
20034	2.218	1.692	1.191	0.988	1.000
20044	2.231	1.673	1.199	1.010	1.000
20054	2.180	1.700	1.180	0.986	1.000
20064	2.209	1.726	1.229	0.992	1.000
20074	2.248	1.720	1.210	1.001	1.000
20084	2.220	1.661	1.177	0.994	1.000
20094	2.208	1.699	1.172	1.017	1.000
20104	2.228	1.724	1.219	1.003	
20114	2.243	1.750	1.213		
20124	2.180	1.658			
20134	2.210				
3 Yr Wtd Avg	2.209	1.709	1.200	1.005	1.000
Age-Age	2.209	1.709	1.200	1.005	1.000
Age-Ult	4.553	2.061	1.206	1.005	1.000
Coeff. Variation	1.1%	1.7%	1.6%	1.0%	0.0%

Actuarial Topics: Loss Development

Incurred Age to Age Factors

	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>
20024	1.247	1.081	1.032	1.010	1.000
20034	1.256	1.084	1.030	1.010	1.000
20044	1.243	1.086	1.028	1.010	1.000
20054	1.262	1.070	1.034	1.010	1.000
20064	1.256	1.076	1.032	1.010	1.000
20074	1.254	1.075	1.033	1.010	1.000
20084	1.245	1.086	1.026	1.010	1.000
20094	1.201	1.081	1.030	1.010	1.000
20104	1.202	1.077	1.029	1.010	
20114	1.157	1.078	1.030		
20124	1.144	1.082			
20134	1.100				
3 Yr Wtd Avg	1.132	1.079	1.030	1.010	1.000
Age-Age	1.132	1.079	1.030	1.010	1.000
Age-Ult	1.271	1.122	1.040	1.010	1.000
Coeff. Variation	4.3%	0.4%	0.2%	0.0%	0.0%



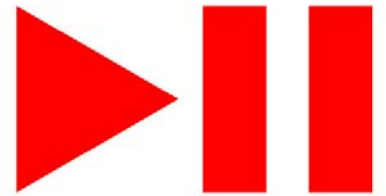
Conversation Stoppers

1. All filings must be compliant with California Code and Regulations.
 1. Read the relevant Code and Regulations.
 2. Read the filing instructions.
 3. Have your staff do so, as well.
2. Alternative analyses may be included in supplemental exhibits, but your trends, data, CAT load, etc. must ultimately be compliant.



Awkward Pauses

1. Filings must use DCCE/A&OE, not ALAE/ULAE.
2. Previously filed methodology has not been “approved”.
3. If a response is completed prior to the “respond by date”, submit it!



Other Considerations

1. Use Group Yield and FIT.
2. Support Institutional Advertising and other Excluded Expenses.
3. Include CDI Filing # for ISO trends, etc.



Make Better First Impressions

Keep a list of what worked for you in past filings, and what you had to change.

1. Be prepared. Fix it before submitting next time.
2. Not selections! Selections must be appropriate for this specific filing. Exhibits, methodology, etc.
3. Identify and explain changes in methodology from prior filing.
4. Consider calling or meeting with the CDI before submitting major filings.

Be Professional.

