

**Casualty Actuaries of the Southeast
Spring 2009 Meeting**

**A Tale of Two States:
A Comparison of California and Florida
Rate Filing Requirements**



Why California and Florida?

- ❖ Top 2 States - 2007 P&C DWP
- ❖ Unique Rating Laws
- ❖ Changes to Rate Regulations in 2007/2008
- ❖ 2 of Top 5 Most Difficult Rate Filing States



Outline of Presentation

- ❖ California Rate Regulations
- ❖ Florida Rate Regulations
- ❖ Brief Comparison of the States
- ❖ Why are these “difficult” rate filing states?
- ❖ Questions



California – Prevailing Regulations

- ❖ CIC 1861.01 – 1861.16 (Prop 103)
 - Rates subject to Prior Approval
 - No Excessive or Inadequate Rates
 - Public Notice/Hearings
- ❖ CCR 2641.1 – 2646.5 – rev'd 4/30/07 & 5/15/08
 - Outlines DOI's Evaluation of Rates
- ❖ Applies to all P&C lines except: ocean marine, title, mortgage, county mutual fire and workers compensation



California - DOI's Evaluation of Rates

- ❖ Specifies Ratemaking Formula
- ❖ Limits Experience Period
- ❖ Specifies Trend/Development Calculation
- ❖ Establishes Expense Ratios (Efficiency Standard)
- ❖ Sets Maximum & Minimum Profit
- ❖ Defines "Most Actuarially Sound"
- ❖ Defines Specialty vs. Commodity Lines
- ❖ Allows for limited "Variance" requests



California - Impact on Basic Ratemaking Formula

Rate ? = [Proj. LR · ELR – 1.0] x Z + [Net Trend] x [1-Z]

$$\diamond \text{ Proj. LR} = \frac{\text{IL x LDF x Loss Trend}}{\text{EP x Onlvl x Premium Trend}}$$

- IL/EP – specifies experience period, CA data only
- LDF – must be 3 year weighted average
- Trend – ¼ ly data only, 8, 12, 16, 20 or 24 pt.



California - Impact on Basic Ratemaking Formula

$$\text{Rate ?} = [\text{Proj. LR} \cdot \text{ELR} - 1.0] \times Z + [\text{Net Trend}] \times [1-Z]$$

❖ ELR = 1 – Expenses – Profit + Inv. Inc.

- Expenses – CDI Efficiency Standard
- Profit – max based on max ROS of $r_f + 6\%$
- Inv. Inc. – specifies calculation

❖ Z (credibility)

- Specifies complement
- Specifies FCS for PPA and HO



California - Specialty Lines

- ❖ Most Actuarially Sound Method
- ❖ Method must be supported; can be questioned
- ❖ Types of Specialty Lines
 - High Premium Policies (premium > \$75K)
 - Large Deductible Policies (SIR > \$100K)
 - Commercial Excess Policies
 - Lines: nuclear, pollution legal liability, product liability, K&R, political risks, D&O, B&M, aviation, fidelity/surety, credit, mortgage guaranty



California - Variance Requests

- ❖ Request for Deviation from CDI Formula
- ❖ File w/Rate Application or After
- ❖ Must Identify Impact/Provide Justification
- ❖ 9 Possible Variances
 - Efficiency Std: (1) SIU expenses, (2a) quality of service, (2b) premium size, (3) market entry costs
 - Leverage Factor: (4) mix of investment risks
 - Specific Factors: (5) LDFs, (6) Trend
 - Other: (7) no solvency risk, (8) solvency risk, (9) confiscatory



California - How is Rate Regulation Applied?

- ❖ Prior Approval Application
- ❖ Required Exhibits
- ❖ Ratemaking Template
 - Contains Factors
 - Calculates Max & Min Rate Change
- ❖ Variance Filing Requirements
 - Templates w/ and w/o each Variance Req'd



Florida – Prevailing Regulations

- ❖ F.S. 627.062
 - Rates submitted File & Use or Use & File
 - No Excessive or Inadequate Rates
 - Disapprovals/Hearings
 - Outlines DOI's Evaluation of Rates
- ❖ FAC 69O-170 – rev'd 9/5/07
 - Outlines Insurer Procedures for Filing Rates
- ❖ Applies to all P&C lines except: PPA, WC, employers liability, commercial inland/ocean marine



Florida – DOI's Evaluation of Rates

- ❖ Must use generally accepted and reasonable actuarial techniques
- ❖ Must consider 14 specific factors
 - Past and prospective experience
 - Reasonable profit margin
 - Reasonableness of judgment reflected in filing
- ❖ Standards for disapproval
- ❖ Must allow full amount of acquisition costs in rates
- ❖ Other line specific items



Florida – Required Rate Filing Content

- ❖ Cover Letter
- ❖ Explanatory Memorandum
- ❖ Actuarial Opinion – “rates are not excessive, inadequate or unfairly discriminatory and comply with the laws of the state”
- ❖ Actuarial Memorandum
 - show rates meet standards in F.S. 627.062
 - support must be sufficient for another actuary to make an evaluation
- ❖ Manual Pages



Florida - Impact on Basic Ratemaking Formula

Rate ? = [Proj. LR · ELR – 1.0] x Z + [Net Trend] x [1-Z]

❖ Proj. LR =
$$\frac{\text{IL x LDF x Loss Trend}}{\text{EP x Onlvl x Premium Trend}}$$

- IL/EP – specifies experience period, FL data only
- ❖ ELR = 1 – Expenses – Profit + Inv. Inc.
 - Profit – provides default factors
 - Inv. Inc. – specifies calculation
- ❖ Z (credibility)
 - Specifies complement



Florida - How is Rate Regulation Applied?

- ❖ i-File filing submission system
- ❖ RCS Exhibits
- ❖ Ratemaking Template
 - Limits Experience Period
 - Calculates Max & Min Rate Change
 - Requests support
- ❖ “Variance” Filing Requirements
 - Discuss/Support alternate method in Actuarial Memorandum



California and Florida - Similarities

- ❖ Ratemaking Template
- ❖ Provision for "Variance" from Template
- ❖ Prescribed Profit/Investment Income
- ❖ Credibility Complement

California and Florida - Differences

- ❖ Efficiency Std. vs. Full Acquisition Costs
- ❖ Degree of Judgment Allowed in Ratemaking



California – What makes rate filings difficult?

- ❖ Data Requirements
- ❖ Limited Profit and Expense Loads
- ❖ Lack of Flexibility/Judgment Allowed
- ❖ Burden of Support w/ Variance Requests
- ❖ Consumer Group reviews
- ❖ +7%/ +15% Automatic Hearing

California – What makes rate filings easy?

- ❖ Less Uncertainty re: Approval
- ❖ Beyond Rate Level – Reasonable Support Required
- ❖ Defined Approval Period



Florida – What makes rate filings difficult?

- ❖ i-File fatal errors
- ❖ Limited Profit Loads
- ❖ Burden of Support
- ❖ RCS Exhibits
- ❖ Opinion Requirement
- ❖ No Subjectivity in Rating Plans
- ❖ Uncertainty

Florida – What makes rate filings easy?

- ❖ Judgment Allowed



Questions?