

CAS Seminar on Ratemaking

Massachusetts Private Passenger Automobile

Session PL-4

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Some History

- Private passenger automobile (PPA) insurance rates have been regulated in the Commonwealth almost as long as there have been automobiles

- 1927 or 1929 until 1976
 - Coverages split between compulsory and optional
 - Compulsory coverage rates set by the Division of Insurance (DOI)
 - Cross subsidies benefiting urban and youthful operators
 - Optional rates set by the individual carriers

- 1976
 - Brief (6 months) experiment with competitive rating
 - All coverages file and use basis
 - Significant rate shock for subsidized risks

Some History (continued)

- 1977
 - Rates set by DOI for all coverages (referred to as “fix-and-establish” or F&E rates)
 - Cross subsidies remain for urban and inexperienced
 - No age/sex/marital status in rating; years licensed used rather than age
 - Nine classes: experienced 6+, senior citizen, business, inexperienced 3-6 years (principal or occasional), inexperienced 0-3 years (principal or occasional, with and without driver training)
 - Territories set by DOI
 - SDIP plan set by DOI
 - Manual set by DOI
 - New business and renewal applications set by DOI (including font size)
 - Carriers allowed to reduce rates for group marketing discounts, or deviations for all or part of their book
 - Rarely utilized

More Recent History

- 1977 – 2007
 - Rates continue to be fixed and established by DOI, along with rules, manual, SDIP, territorial definitions, etc...
 - Major reform in 1988, increasing financial responsibility limits, PIP benefits, inspections... along with residual market reform
 - At the time, about two-thirds of the market was in the “residual” market
 - Rates reduced
 - Dropping frequency during 1990s and early 2000s lead to decreasing rates
 - Carriers introduced significant number of group marketing plans (largest carrier with AAA, other carriers with “open” groups, employee groups, alumni groups...) as well as deviations on the best SDIP classes
 - Fix-and-established rates reduced significantly
 - Number of groups discounts and SDIP deviations dried up

During 2007

- Competition hearing in May 2007
- Commissioner (in June 2007) determined that the market was sufficiently competitive that the F&E process should not be used and carriers could file their own rates, effective April 1, 2008
- DOI issued (in August) draft regulations governing how rates could be set
- Hearing was held in September regarding the regulations
- Regulations were promulgated in October
- The DOI issued a series of bulletins between October 19 and November 13 regarding details of filing requirements
- All carriers were required to file for rates by November 19, 2007
- All carriers were allowed to see all other carriers' filings, and then had the opportunity to revised their rate filings by November 27, 2007
- Hearings were held for several carriers' filings
- Currently, all rates are "on file" at the DOI

Regulation / Bulletins

- Carriers could use a variety of rating methodologies to determine overall rate level indications
- Class relativities could be revised, but territorial relativities could not
 - Rate changes by coverage and class had to be applied uniformly by territory
- Carriers could expand classifications, but could not include rating factors based on certain attributes prohibited by statute or regulation (age*, sex, marital status, race creed, national origin, religion, occupation, income, education, or home ownership)
- No hypothetical insured could have over a 10% increase in premium for any coverage without a hearing
 - Combination of base rates, (old) class relativities, new relativities, increased limits factors, model year/symbol relativities...
- All filings were provided to the DOI in a proscribed format (in Excel), and with supporting documentation regarding the 10% threshold (in Access)

How Did Carriers Respond?

- During 2007, there were 19 carriers writing PPA in Massachusetts
- Several of these carriers write predominantly in Massachusetts
- These carriers did not necessarily have experience in developing rate filings for PPA
- Timeframes were tight
- The industry bureau filed on behalf of the “Under 1%” companies
 - Those five carriers with less than a 1% market share
- The residual market filed for rates
 - Also limited their rate request to 10%
 - Per statute, insureds that are placed in the residual market cannot be charged more than if they were written voluntarily
 - Therefore, these rates may not be utilized often

How Did Carriers Respond? (continued)

- On November 19, of the 19 carriers writing PPA in 2007
 - Five could have adopted the bureau Under 1% rates
 - The remaining 14 had to file independent rates
 - All 14 filed for rates, with all 14 filing for reductions
 - Of the five “Under 1% companies, three filed for independent rates
- On November 20, the DOI distributed the rate filings to interested parties
- On November 27, most carriers revised their filings to reflect deeper overall reductions from 2007 rates, plus additional discounts

Examples of New Factors

- Rather than the nine rating classes allowed under F&E rates in 2007, carriers expanded their classes, including consideration of the following:
 - Years licensed (in finer breakdowns than historical 0-3, 3-6, 6+)
 - Good student discount
 - Student living away from home
 - Companion policy discount (HO, renters, other)
 - Hybrid vehicles
 - Advanced driver training
 - Renewal / loyalty discount
 - Payroll deduction / EFT discount
- Carriers also expanded coverage
 - Gap coverage on loan/lease vehicles
 - Expanded towing and rental reimbursement
 - Custom equipment
 - Pet insurance

Consumer Education

- Since consumers for the past 30 years have not had to shop for PPA insurance based on rates, the DOI has established several new web-sites to assist consumers in shopping for this coverage
 - Rating examples for four types of insureds based on years licensed, annual mileage, and type of car, and zip code
 - “Find an agent” based on zip code
- The agents’ association has also launched an information web-site, as have several insurers or insurer groups
- The major newspapers have published several articles related to purchasing PPA as of April 2008
- Advertising on radio, TV, and billboards is up substantially

How Will it Work?

- Rates are effective April 1, 2008 (two weeks from now)
- Informational web-sites are live
- Agents have had training provided by their association
- Rating software for agents to quote multiple carriers' rates is being developed
- Carriers are issuing renewal policies

Questions
