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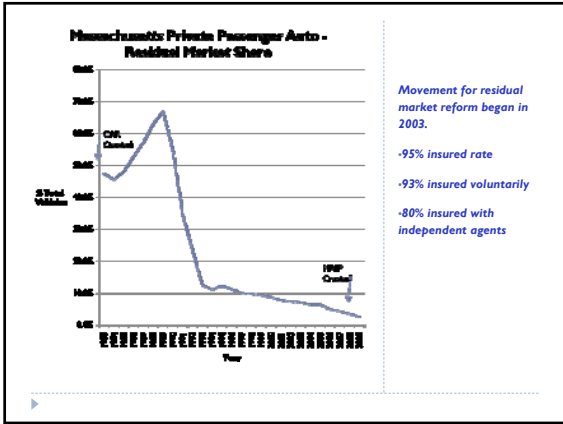
Massachusetts Personal Auto Insurance

Residual Market Reform

Overview

- ▶ Why make change?
- ▶ Challenges of change.
- ▶ Unique features of the Plan.





What was a Problem in 2003?

Stakeholder	Perception of Problem
▶ Insurance Companies	▶ Residual market assessments unfair.
▶ Insurance Agents	▶ Loss of companies (34 had left since 1990)
▶ Insurance Consumers	▶ Unaware of residual market. State set rates applied to all.

Government's Residual Market Assessment 2003

- ▶ Regulatory examination of Commonwealth Automobile Reinsurers (CAR) by Tillinghast-Towers/Perrin (April 04)
 1. Rules that assigned residual market obligations to companies could not be managed fairly.
 2. Rules that allocated the CAR deficit to companies was unfair in the face of the assignment rules.
 3. Actuarial subsidies in state set rates were the reason the current rules governing residual market assignments was created in the first place.
- ▶ Flaws in the management of the market were the primary reason insurance companies were leaving the market, and also functioned as barriers to entry.

Government Problems & Solutions

Problem #1

Keeping Companies in the Personal Auto Insurance Market

Solution

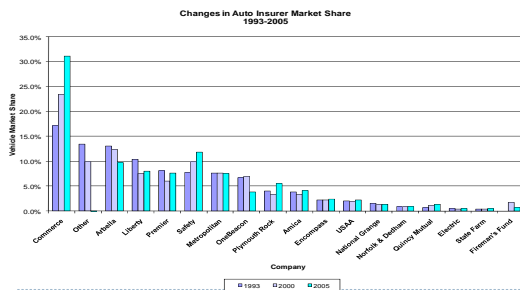
- ▶ Make the residual market more fair by structuring it as an assigned risk plan.
- ▶ Find ways to reduce actuarial subsidies caused by state set ratemaking methods without upsetting anyone.

Process for Changing Residual Market Rules Under the Law

Residual market rules could only be changed with the approval of the Commissioner of Insurance.

- ▶ Commissioner had legal authority to call for CAR to make changes.
- ▶ Commissioner had legal authority to promulgate changes in the event CAR's proposals were lacking.

Residual Market Reform Challenge #1 Not All Companies Saw a Need for Change



Residual Market Reform Challenge #2
Building Consensus as to Type of Change



Personal Auto Market Landscape
2007

- ▶ Government efforts had managed to retain the 19 companies writing personal auto insurance.
- ▶ The process for resolving the residual market problem was largely complete and ready for implementation.
- ▶ Rate subsidies by rating territory begin to show significant reductions due to fraud fighting initiatives that began in 2004.
- ▶ New Governor





Hurricane Nonnie
July 16, 2007

Commissioner Burnes implemented competitive rate regulation and the former Commissioner's assigned risk plan effective April 1, 2008



Unique Features of the MA Assigned Insurance Plan (MAIP)

- ▶ Eligibility for Coverage
- ▶ Coverage Available Through the MAIP
- ▶ Premium for MAIP Assigned Policies
- ▶ Determination of Quota Share
 - ▶ 2 year suspension for new entrants
 - ▶ Measuring quota share
- ▶ Voluntary Credits



Ineligible Applicants - Liability

1. The applicant or any person who usually drives the motor vehicle has failed to pay an insurance company any motor vehicle insurance premiums due or contracted during the preceding twelve months; or
2. Any person who usually drives the motor vehicle does not hold or is not eligible to obtain an operator's license.



Ineligible Applicants – Physical Damage

- Applicant convicted of any category of vehicular homicide, auto insurance related fraud, or motor vehicle theft within the past five years;
- Applicant made an intentional and material misrepresentation in making claim under such coverages within the past five years;
- Applicant has been involved in four or more accidents in which such person has been deemed to be at fault in excess of fifty per cent within the three years immediately preceding the effective date of the policy (collision only);
- Applicant has had two or more total theft or fire claims within the three years immediately preceding the effective date of the policy (comp only);
- Applicant convicted one time of any category of driving while under the influence of alcohol or drugs in the past 3 years;
- Any vehicle for which a salvage title has been issued unless a new certificate of title has been; or
- A high-theft vehicle which does not have at least a minimum anti-theft or auto recovery device as prescribed by the commissioner of insurance (comp only).



Coverage Available Through the MAIP



- ▶ Up to 250/500 BI, UM, UI
- ▶ Up to \$250 for PDL
- ▶ Up to \$8,000 for PIP
- ▶ Up to \$25,000 Med Pay
- ▶ \$100 Towing & Labor
- ▶ \$100/Day Rental Reimb.

Policy Premiums in the MAIP

▶ The premium charged is the lower of the premium based on MAIP rates & rules and the assigned company's voluntary rates and rules.

<i>MAIP</i>	Base Rate	\$1,000
	Merit Rating Factor	1.30
	Annual Mileage Discount	1.00
	Multi-Car Discount	1.00
	Total MAIP Premium	\$1,300
<i>Company</i>	Base Rate	\$1,100
	Merit Rating Factor	1.30
	Annual Mileage Discount	0.95
	Multi-Car Discount	1.00
	Account Discount	0.90
	Total Company Premium	\$1,223

2 Year Suspension for New Entrants

	<u>Massachusetts</u>	<u>Other States Assigned Risk Plans</u>
Date of First Rates	1/1/2010	1/1/2010
Date of First Assignment	1/1/2012	1/1/2012
Voluntary Share Measure	12 Months Ending 10/30/2011	12 Months Ending 12/31/2009

Measuring Quota Share

- ▶ Premium quota share is assigned based on each company's exposure based market share in the voluntary market.
- ▶ Premium quota share is measured using the premium computed exclusively using MAIP rates and rules. Plan administration is heavily reliant on statutory statistical reports.
- ▶ Premium quota share is updated monthly.

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Voluntary Credits

- ▶ Keep out credits (0.3 – 2.5 x MAIP premium)
 - ▶ Communities with historic profitability problems
 - ▶ Principal operators licensed less than six years
- ▶ Take out credits (equal to MAIP premium)

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