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**AND THE INDICATION IS...**  
ACTUARIAL CONSIDERATIONS AROUND RATE CAPPING

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The views expressed in this presentation are those of the speaker at this point in time. These views are not necessarily identical to those of the CAS or the speakers' employers.

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### Agenda

- What is Rate Capping?
- Benefits of Rate Capping
- Regulatory Perspective
- Rate Capping Design
- Rate Indications Under Capping
- CY Financial Projections
- Post-Implementation

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### What Is Rate Capping?

Under rate capping, a customer's renewal rate change may be capped at a maximum percent increase (or decrease) at each renewal until the approved rate level is reached.

Example:

Current Prem: \$1000	Renewal Prem: \$1400	Rate Cap: 20%
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- Premium at first renewal: \$1200  
Min(\$1400, \$1000 x 1.20)
- Premium at second renewal: \$1400  
Min (\$1400, \$1200 x 1.20)

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### Benefits of Rate Capping

- Customer preference for stable rate changes
- Improved retention
- Lower complaint levels
- Gradual introduction of significant rating plan changes
- Appropriate new business rates

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## Regulatory Perspective

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- Some states support capping
  - Fewer large increases = more happy consumers
- Some states limit capping
  - Capping increases okay, but not decreases; and/or
  - Must roll off within defined timeframe (2 yrs)
- Some states will not approve capping (e.g. CA)
  - Disparate treatment of new and existing customers

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## Rate Capping Design

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Capping Structure		
Cap at a coverage level? Vehicle level? Policy level?		
Situations to Address		
Customer Initiated	Company Initiated	Exposure Shift
<ul style="list-style-type: none"> <li>• Coverage changes</li> <li>• Adding/removing vehicles/drivers</li> <li>• Driving activity</li> <li>• Moving</li> <li>• Discount changes</li> </ul>	<ul style="list-style-type: none"> <li>• Subsequent rate changes</li> <li>• Tiering</li> <li>• Company placement</li> <li>• Discovery period changes</li> </ul>	<ul style="list-style-type: none"> <li>• Customer aging</li> <li>• Model year aging</li> <li>• Other distributional shifts</li> </ul>

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## Rate Indications Under Capping

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Should indication be based on capped or uncapped premium?

Capped	Uncapped
How much more/less premium you need than you are currently bringing in.	How much more/less premium you need than your filed rates.
Benefit: Tells you if you're currently bringing in enough money to cover costs	Benefit: Applies directly to filed rates.
Drawback: What do you apply the indicated rate change to?	Drawback: Doesn't answer if current income is adequate to cover costs.

Indications should be based on uncapped premium, but more analysis is needed...

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## CY Financial Projections

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Financial projections ensure company is bringing in enough premium to cover costs in near term

- Must reflect capped premium
- Requires estimating cap "unwind", premium trend impact
- Mismatch with Actuarial projections used in rates requires understanding and explanation

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## Post-Implementation

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### Actuarial/Product

- Calculating uncapped premium
- Calculating on-leveled uncapped premium, both segmented and in aggregate
- Calculating on-leveled capped premium

### IT

- Maintaining capped and uncapped premium in systems
- Validating and correcting rating errors

### Customer

- Communicating to customers why they continue to see increases

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## Questions?

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