

What Makes A Good Rate Filing?

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Define Goals of Rate Filing

- Provide the regulator with copy of rates, schedules, manuals, credits, surcharges used.
- Demonstrate that rates are not excessive, inadequate or unfairly discriminatory and result in a reasonable rate of return.
- Facilitate regulator review of filing and obtain timely approval by providing information needed to evaluate reasonableness of filing.

Background Research

- Know what has or has not worked in past filings – but do not become a slave to the past.
- Know the statutes that apply both to rate filings, ratemaking, and underwriting in the specific state.
- Know rules or regulations affecting the filing.
- Be aware of recent regulator actions on similar filings.

Understand Regulator Goals

- Company financial viability
- Adherence to insurance laws and regulations
- Encourage product availability
- Keep rates fair and adequate
- Operate efficiently – deliver real value
- Operate ethically, honestly, and fairly
- Treat consumers and insurers respectfully, maximizing freedom within legal constraints

Communication

- Know the regulator/recipient of the filing and the expectation of the particular state
- Write clearly, explain fully. Less is not more.
- Define all acronyms that are company specific.
- Make sure unique company rating structures are explained



Me Too

- Are you compatible?
- Does the rest of the rating structure fit?
- Is your mate too old?
- Does s/he live too far away?
- Will you be stimulated or smothered?



GLM and Other Models

- An actuary is a person who passes as an expert on the basis of a prolific ability to produce an infinite variety of incomprehensible figures calculated with micrometric precision from the vaguest of assumptions based on debatable evidence and inconclusive data derived by persons of questionable reliability for the sole purpose of confusing an already hopelessly befuddled group of persons who never read the statistics anyway!
- Supply diagnostic tests showing significance for each variable used and for model as a whole
 - Consider stability of model over time
 - Consider hold out samples
 - Lift curves
- Supply the actual model, define all acronyms
- Describe underlying data used to construct model
- List preliminary analyses, data checks, and logical tests that data was subjected to.
- Show comparison of present, indicated, and proposed rating factors. Support proposals that differ from indications.
- Discuss rating factors that take on counterintuitive values

Explanatory/Actuarial Memorandum

- Describe any changes from previous approach in detail.
- Describe in detail how your approach differs from more commonly seen alternatives.
- Document method, assumptions, and resulting rates so that other actuary can follow and show consistency with generally accepted and reasonable actuarial techniques.
- Document operational issues – effect of changes in underwriting, non-recurring claims, catastrophes during experience period and compare to expected amounts.

Explanatory/Actuarial Memorandum

- Identify/discuss source and nature of experience data used including homogeneity and reasonableness for the purpose
- Identify/discuss premium and loss trends
- Identify/discuss how credibility was used in analysis. Support standard used for full credibility.
- Show histogram of effects on policyholders
- Identify/discuss reinsurance effects
- Support expense factors used, showing why historical data is appropriate in determining anticipated expense needs.
- Analyze investment income and return on surplus in the context of the rate change filed.
- Disclose and explain basis for judgment used in selecting assumptions.
- Display and explain on-level method and rate history assumed

Capping Changes



- Desire to avoid sticker shock is understood, but
 - Limitations must not become indefinite tenure benefits that shield previous insureds from ever paying the premium filed and charged for new business.
 - Limitations should not be a source of increment or decrement to company revenue that is not considered in overall rate development.
 - Rate level indications should appropriately reflect the limits imposed.
 - Imposing floors (minima or capping) must be carefully justified – particularly asymmetric ones. Avoid bias.

Fees

- Fully earned premium or part of premium generally problematic in personal lines
- Permitted only where specifically authorized by law
- When actuarial basis is asserted for additional revenue on a “fee for service” basis above premium, consider:
 - Is offsetting revenue already included in premium via expense provision? Double collection is not an option.
 - If not specifically authorized by law, must refund prorata in the event of cancellation.
 - Policyholder reasonable expectation of service included in premium. Claim filing fee? Add insured fee? Add car fee?

Trade Secret Information

- Need to let us know up front where it is: separate from non-secret material
- Need to identify precisely what it is: clearly mark each page
- Need to provide affidavit certifying under oath that
 - it provides a valuable advantage to the company over those who do not know or use it
 - Measures to prevent disclosure have been taken and will continue to be taken
 - It is not and has not been reasonably obtainable without company consent by others using legitimate means
 - It is not publicly available elsewhere
- Public records requests for such material (if any) will result in company notification and 30 days allowed for company to file circuit court action to determine whether the documents contain trade secrets and whether an order barring public disclosure should be issued.
- No documents are released pending outcome of legal action if timely filed
- May be used internally or disclosed to an officer or employee of another governmental agency if within the scope of employment.
- Section 624.4213, F.S.