

Price Optimization

A Regulatory Perspective

D. Lee Barclay

Senior Actuary

Washington state

Office of Insurance Commissioner



Washington rate review

- Personal lines: in essence, prior approval
- Commercial lines: use and file (with a “catch”)
- One casualty actuary and two actuarial analysts review P&C rate filings
- Our reputation: tough, but we pride ourselves on asking meaningful questions

Predictive modeling

- Multivariate analysis is required when insurance (credit) scoring is involved
- Multivariate analysis is the best approach in other filings too
- Predictive modeling is OK if it's related to predicting costs of risk transfer
- There are politically sensitive variables

Price optimization

- Predictive modeling vs. prescriptive modeling—a useful distinction
- Price optimization uses variables (e.g., price elasticity) unrelated to expected costs of risk transfer
- This is not the same as applying “actuarial judgment” to indicated rating factors

Appropriate regulatory response

- MD and OH have issued bulletins prohibiting PO
- Washington OIC no longer issues bulletins (a.k.a., technical assistance advisories)
- It's amazing what other states can accomplish (outlaw?) by bulletin!
 - JARRC in Washington

Washington: Statutory authority

- RCW 48.19.020: “Premium rates for insurance shall not be excessive, inadequate, or unfairly discriminatory.”

Statutory authority, cont.

- WAC 284-24-065(1): “A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer. Such costs include claims, claim settlement expenses, operational and administrative expenses, and the cost of capital.” (CAS Statement of Principles, 1988)

Statutory authority, cont.

- RCW 48.18.480: “No insurer shall make or permit any unfair discrimination between insureds or subjects of insurance having substantially like insuring, risk, and exposure factors, and expense elements, in the terms or conditions of any insurance contract, or in the rate or amount of premium charged therefor, or in the benefits payable or in any other rights or privileges accruing thereunder.”

Statutory authority, cont.

- Washington will use this authority to disapprove rates that are based on information unrelated to expected costs
- Staff are reviewing all rate filings carefully, alert to the possibility of PO
- We are taking advantage of learning opportunities that present themselves